

M&G Investment Funds (3)

Annual Long Report and audited Financial Statements
for the year ended 30 June 2016



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M&G Investment Funds (3)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Annual Long Report and audited Financial Statements for the year ended 30 June 2016.

The audited financial statements of M&G Investment Funds (3) 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 (3) is an umbrella Open-Ended Investment Company (OEIC) and contains nine 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 8 August 2001 and was launched on 7 March 2002, following the conversion of a series of authorised unit trusts.

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

As at 30 June 2016, none of the funds held shares of the other funds within this OEIC.

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

Fund managers

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

M&G Corporate Bond Fund

Richard Woolnough

M&G Dividend Fund

Phil Cliff

M&G Emerging Markets Bond Fund

Claudia Calich

M&G European Corporate Bond Fund

Stefan Isaacs

M&G European High Yield Bond Fund

James Tomlins

M&G Fund of Investment Trust Shares

Richard O'Connor

M&G Global Government Bond Fund

Claudia Calich

At the start of the review period Mike Riddell was the fund manager.

M&G Recovery Fund

Tom Dobell

M&G Smaller Companies Fund

Garfield Kiff

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

M&G Investment Funds (3)

Authorised Corporate Director's Report

Important information

From 1 July 2015, a new accounting standard, Financial Reporting Standard 102 (FRS 102), was adopted. Under FRS 102, a sub-fund needs to identify its 'functional currency' which is defined as being the currency that best reflects the primary economic environment in which it operates. When assessing the primary economic environment of each sub-fund, numerous factors can be taken into consideration. As a result, we concluded that some of our funds' functional currencies should change.

The assets of a sub-fund within an umbrella OEIC may be valued in a currency other than the base currency. This is known as a 'valuation currency'. We took the opportunity to add a US dollar valuation currency to the M&G Emerging Markets Bond Fund, and a euro valuation currency to the M&G European Corporate Bond Fund and the M&G European High Yield Bond Fund.

It is important to emphasise that this change has no impact on your sub-fund's return profile. The prices of share classes will continue to be published in the currency in which they are currently denominated and Income share distributions will continue to be paid in this currency too. In future, accounting information in these reports will be shown in the valuation currency of the sub-fund.

Please note that with effect from 1 July 2016, the sub-funds of M&G Investment Funds (3) began taking the annual management charge, administration charge and, where relevant, the share class hedging charge, from capital in the case of income shares, and from Income in the case of Accumulation shares.

Please also note that we will be reducing the annual management charge (AMC) applied to Swiss franc Class 'C' and 'C-H', Euro Class 'C' and 'C-H', US dollar Class 'C' and Sterling Class 'I' and 'I-H' shares of the M&G Emerging Markets Bond Fund from 0,75% to 0,60%. This change will be effective from 6 September 2016 and will result in a reduction in the share classes' estimated ongoing charge figures (OCFs).

This change will have no impact on the fund's investment approach. The fund's objective and policy will remain unchanged. All costs associated with introducing the change will be borne by M&G Securities Limited.

Table of changes

M&G Emerging Markets Bond Fund

Share class	Share type	Current AMC	Revised AMC
Swiss franc 'C'	Accumulation	0,75%	0,60%
Swiss franc 'C-H'	Accumulation	0,75%	0,60%
Euro 'C'	Income & Accumulation	0,75%	0,60%
Euro 'C-H'	Income & Accumulation	0,75%	0,60%
Sterling 'I'	Income & Accumulation	0,75%	0,60%
Sterling 'I-H'	Income & Accumulation	0,75%	0,60%
US dollar 'C'	Income & Accumulation	0,75%	0,60%

Investor information

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

Customer services and administration for UK clients:

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

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

Telephone: 0800 390 390 (UK only)

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

Customer services and administration for non-UK clients:

M&G International Investments Limited,
mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main, Germany
Please remember to quote your name and M&G client reference and sign any written communication to M&G. Failure to provide this will affect your ability to transact with us.

Telephone: +49 69 1338 6767

Email: iocs@mandg.co.uk

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

Austrian paying and information agent:

Raiffeisen Bank International AG,
Am Stadtpark 9, 1030 Wien, Austria

Belgian financial agent:

RBC Investor Services Belgium, Rogier Tower +10/43
Rogierplein 11 Place Rogier, 1210 Brussel, Belgium

Danish representative agent:

Nordea Bank Danmark A/S,
Issuer Services, Postboks 850, 0900 Copenhagen C, Denmark

French centralising agent:

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

During the financial year, the effective proportion of the net assets of the M&G Recovery Fund in PEA ('Plan d'Épargne en Actions') eligible assets has permanently been equal to at least 75%.

German paying and information agent:

J.P. Morgan AG,
Junghofstraße 14, 60311 Frankfurt am Main, Germany

M&G Investment Funds (3)

Authorised Corporate Director's Report

Investor information

Irish facilities agent:

BNY Mellon Fund Services (Ireland) Limited,
Guild House, Guild Street, 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:

J.P. Morgan Bank Luxembourg S.A., European Bank & Business
Center, 6 c route de Trèves, 2633 Senningerberg, 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:

Skandinaviska Enskilda Banken AB (publ),
Sergels Torg 2, 106 40 Stockholm, Sweden

Swiss paying agent:

JP Morgan Chase Bank,
National Association, Columbus, Zurich Branch,
Dreikönigstrasse 21, 8002 Zürich, Switzerland

Swiss representative:

Carnegie Fund Services S.A.,
11, rue du Général-Dufour, 1204 Genève, Switzerland

Authorised Corporate Director's Responsibilities

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

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

M&G Investment Funds (3)

Depository's Responsibilities and Report

Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Investment Funds (3) ('the Company') for the period ended 30 June 2016

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

The Depository 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 Depository must ensure that:

- the Company's cashflows are properly monitored (this requirement on the Depository 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 Depository 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 Depository 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
15 August 2016

National Westminster Bank Plc
Trustee and Depository Services

M&G Investment Funds (3)

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Investment Funds (3) ICVC

We have audited the financial statements of M&G Investment Funds (3) ICVC ('the Company') for the year ended 30 June 2016 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's sub-funds, the accounting 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 members, 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 members 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 members 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 30 June 2016 and of the net revenue / (expense) and the net capital gains / (losses) 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
15 August 2016

Ernst & Young LLP
Statutory Auditor

The financial statements are published at www.mandg.co.uk/reports, which is a website maintained by M&G Securities Limited and M&G Financial Services Limited (M&G). The maintenance and integrity of the M&G website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Annual report contained in this document has been extracted and translated from the Accounts of the Company which were produced in English and on which Ernst & Young LLP expressed the opinion reproduced/translated above.

Ernst & Young LLP express no opinion as to whether the contents have been properly extracted from the accounts on which they expressed their opinion or the accuracy of the translations made.

M&G Investment Funds (3)

Financial statements and notes

The financial statements for M&G Investment Funds (3) comprise the individual financial statements for the funds and the notes below.

Notes to the financial statements

1 Statement of compliance

The financial statements of M&G Investment Funds (3) have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014 (2014 SORP).

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

2 Summary of significant accounting policies

a) Basis of preparation

The financial statements of M&G Investment Funds (3) 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.

M&G Investment Funds (3) and its funds have adopted Financial Reporting Standard 102 (FRS 102) and the 2014 SORP. This has resulted in presentational changes to the financial statements. For further details please see the 'financial statements and notes' of each fund.

b) Functional and presentational currency

The functional and presentational currency of M&G Investment Funds (3) is UK sterling. Where the functional and presentational currency of a sub-fund is not UK sterling this is disclosed in the 'financial statements and notes' of that sub-fund.

c) Exchange rates

Transactions in currencies other than the 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 30 June 2016 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 30 June 2016, 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.

M&G Investment Funds (3)

Financial statements and notes

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 it will be recovered.

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.

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.

M&G Investment Funds (3)

Financial statements and notes

Notes to the financial statements

3 Risk management policies (continued)

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 Corporate Bond Fund	VaR
M&G Dividend Fund	Commitment
M&G Emerging Markets Bond Fund	VaR
M&G European Corporate Bond Fund	VaR
M&G European High Yield Bond Fund	VaR
M&G Fund of Investment Trust Shares	Commitment
M&G Global Government Bond Fund	VaR
M&G Recovery Fund	Commitment
M&G Smaller Companies 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.

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.

M&G Investment Funds (3)

Financial statements and notes

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

15 August 2016

M&G Investment Funds (3)

Financial statements and notes

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M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investment objective

The Fund aims to achieve a higher total return (the combination of income and growth of capital) from investment than would be obtainable in UK government fixed interest securities (ie gilts) of similar maturities.

Investment policy

The Fund invests mainly in sterling denominated corporate debt instruments. The Fund's exposure to corporate debt may be gained through the use of derivatives. 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, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Investment approach

The fund's investment approach is largely 'top-down': the fund manager's economic outlook will determine key investment decisions such as the portfolio's duration, and how the fund's assets are invested proportionally by asset class and corporate sector.

The fund manager uses proprietary research, rather than external research. M&G's in-house team of credit analysts provides bottom-up analysis of the corporate bond markets, which complements the fund manager's top-down views.

Risk profile

The fund invests mainly in sterling-denominated fixed income securities, or bonds, issued by UK companies. It is primarily subject to the price volatility of the UK bond market as well as the performance of individual issuers. It is also influenced by developments in the broader global bond market. In addition, the fund is subject to fluctuations in currency exchange rates.

The fund's focus is on high-quality corporate bonds, securities that are normally traded with relative ease. Up to 20% of the fund may be invested in other fixed income investments, such as government bonds, which are typically highly liquid assets, or high yield corporate bonds, which are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

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

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

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



The above number:

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

Investment review

As at 1 July 2016, for the year ended 30 June 2016

Performance against objective

Between 1 July 2015 (the start of the review period) and 1 July 2016, the M&G Corporate Bond Fund produced a positive total return (the combination of capital growth and income) for its sterling share classes. It also outperformed the average return of its peer group of similar funds. However, the euro share classes suffered a loss because over the period the euro increased in value against sterling, the fund's valuation currency. This had the effect of reducing the fund's return upon conversion into euros.^[a]

The M&G Corporate Bond Fund invests predominantly in high-quality sterling-denominated corporate bonds with the aim of generating a superior total return than would be obtainable from investing in UK government bonds (gilts) of a similar maturity. Although the fund underperformed gilts over the period under review, over longer periods of three to five years, the fund has outperformed gilts of a similar maturity.

Investment performance

The period under review saw significant levels of market turbulence in bond markets. Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'. Investment grade corporate bonds refer to fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk of non-repayment than those issued by companies with lower credit ratings (known as high yield bonds). The performance of investment grade corporate bond markets is generally heavily influenced by the performance in government bond markets.

Investors reflected an increasingly negative view of the global economy over the 12 months by buying bonds issued by the governments of developed countries such as the US, UK and Germany, considered to be 'safe haven' investments. However, corporate bonds, which are viewed by investors as being riskier investments, went down in value. The fortunes of companies tend to be more closely tied to the macro economy and investors will typically sell these investments when the outlook is uncertain.

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Investors were reacting to a number of geopolitical and macroeconomic events that combined to threaten the fragile global economic recovery since the financial crisis in 2007/08. The price of oil fell sharply until mid-February, placing increasing pressure on oil producers, energy-related sectors and the broader global economy. Meanwhile, in August, the Chinese central bank's move to devalue its currency against the US dollar served to amplify perceptions of global financial instability, causing extreme volatility in Asian stockmarkets that spilled over into corporate bond markets.

Hotly anticipated monetary action by the US Federal Reserve and the European Central Bank was also a key market driver over the period. In particular, investors kept a close eye on comments issued by the Federal Reserve in expectation of a rise in the US base interest rate, which was eventually implemented in December. This is in contrast to the European Central Bank's March 2016 expansion of its existing programme to boost the economy launched in early 2015.

In January, huge swings in the oil price, concerns over China's slowing economy and escalating fears of a US recession combined to drive corporate bond prices back to levels last seen in 2012's recession. However, the asset class rallied strongly until mid-April on the combination of improving US economic data, sharp gains in oil prices, and encouraging comments from China's central bank. From mid-April onwards, markets were relatively benign until June when fears around the outcome of the UK's referendum on European Union membership took hold. The 'leave' vote resulted in significant volatility in financial markets.

Investment activities

Over the review period, we made only minor adjustments to the positioning of the M&G Corporate Bond Fund as our main macroeconomic views did not change.

One of the key drivers of a bond fund's performance is its ability to adjust the portfolio's sensitivity to changes in interest rates, known as 'duration'. The fund's duration was held fairly steady over much of the review period, between 6.7 years and 6.3 years. However, after the UK referendum, duration was increased to 7.1 years. All positions were short relative to the fund's comparable index, the iBoxx £ Corporate Index.

There were only minor changes to the portfolio's asset allocation over the period. Exposure to investment grade bonds, which was held around 80%, fell slightly recently, while the fund's cash position and allocation to government bonds rose slightly. We did this to moderate the fund's risk profile ahead of the UK's referendum.

By sector, the largest exposure is to bonds issued by financial companies, although the exposure is less than the comparable index and we remain highly selective when lending to firms in that sector. However, recently we have reduced exposure to financial companies further, with a particular focus on investment banks.

In terms of transactions, we continue to find value in long-dated investment grade bonds in US dollar denominations, particularly in the very active new issue market. (Long-dated bonds refer to issues repaid over relatively long periods.) Trading activity focused on adjusting existing positions in large US issuers such as Apple, Microsoft and Verizon and UK issuers such as Lloyds Banking Group and Thames Water.

Outlook

It will take some time before the consequences of the UK's historic decision to leave the EU are fully understood. What is certain is that the outcome changes the trajectory of the UK economy and, at least temporarily, destabilises the EU. Market volatility will also likely continue as investors express their reaction to the uncertainty that the leave vote has created. Much will depend on whether the UK remains in the single market and under what conditions and the extent to which remaining EU member states pull together.

In the short term, the Bank of England will likely reduce interest rates in a bid to boost the economy in the face of waning foreign investment and fears around the UK's sizeable trade deficit. Inflation could also rise due to a lower sterling relative to the euro and the US dollar but government bond yields will likely remain lower for longer due to ultra-low interest rates. (Bond yields refer to the interest received from a fixed interest 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.)

We still remain relatively positive on corporate bonds, although at this stage we prefer to maintain a higher level of 'risk-free' assets (such as core government bonds and cash) in our portfolios, which we increased ahead of the referendum. This is in light of the possibility that Brexit negotiations could be protracted and difficult, which could prompt market volatility. However, much of the portfolio is invested in multinational companies with geographically diversified operations that potentially offer some protection against Brexit-related negative sentiment.

In the US, economic data suggests that the economy remains on track, helped by low interest rates and a lower oil price. Signs of inflation are beginning to appear and a robust labour market will continue to support this. For this reason, we have opted to keep duration low as we believe that government bond yields are unlikely to fall much further, particularly after the market's initial response to Brexit. However, duration is not as short as it was pre-referendum due to increased uncertainty.

Richard Woolnough Fund manager

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

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

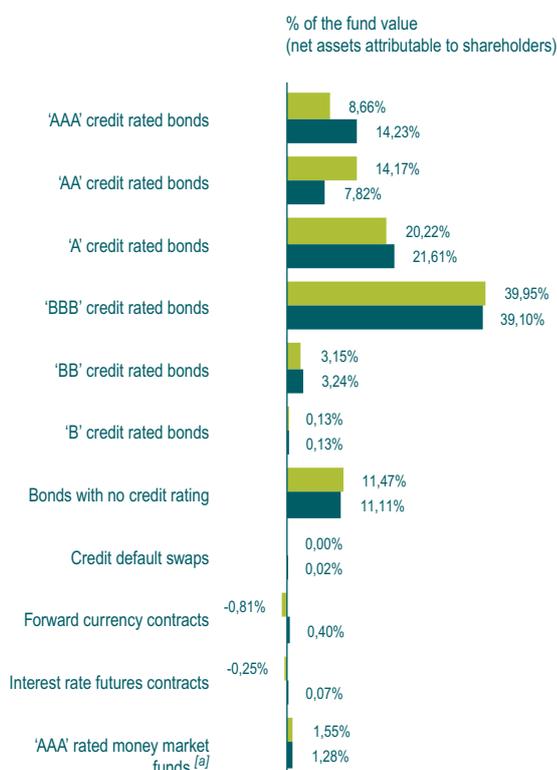
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G Corporate Bond Fund

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Investment review

Classification of investments



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

■ 30 June 2016
■ 30 June 2015

Source: M&G

Investments

Portfolio statement

as at 30 June Holding	2016 £'000	2016 %	2015 %
Debt securities	4,389,188	97,75	97,24
'AAA' credit rated bonds	388,825	8,66	14,23
£16,250,000 Abbey National Treasury Services 5,125% 2021	19,107	0,43	
£16,414,000 Arkle Master Issuer Var. Rate 2060 (3,986%)	16,881	0,38	
£5,700,000 Arkle Master Issuer Var. Rate 2060 (4,681%)	5,815	0,13	
£17,000,000 Barclays Bank 4,25% 2022	19,617	0,43	
£318,493 BL Superstores Finance 4,482% 2030	357	0,01	
£3,840,000 Broadgate Financing 4,821% 2036	4,958	0,11	
£1,758,745 Broadgate Financing 4,949% 2031	2,101	0,05	
£8,916,674 Broadgate Financing FRN 2032	8,233	0,18	

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 %
'AAA' credit rated bonds (continued)			
£4,600,000 Cie de Financement Foncier 5,5% 2027	6,064	0,14	
£2,162,651 E-CARAT FRN 2023	2,152	0,05	
£640,000 European Coal and Steel 6,8875% 2019	733	0,02	
£2,998,000 European Investment Bank 3,75% 2027	3,604	0,08	
£5,000,000 European Investment Bank 5,5% 2025	6,662	0,15	
£15,000,000 European Investment Bank FRN 2018	15,024	0,33	
£20,000,000 European Investment Bank FRN 2020	19,904	0,44	
£50,000,000 European Investment Bank FRN 2021	49,383	1,10	
£25,000,000 European Investment Bank FRN 2022	24,443	0,54	
£352,120 First Flexible No.5 FRN 2034	330	0,01	
£11,000,000 Fosse Master Issuer Var. Rate 2054 (4,635%)	11,196	0,25	
£5,000,000 KFW FRN 2017	4,998	0,11	
£9,689,486 Lanark Master Issuer FRN '12-2A' 2054	9,744	0,22	
£8,750,000 Microsoft 3,5% 2042	6,325	0,14	
£17,500,000 Microsoft 3,75% 2043	13,089	0,29	
£45,000,000 Microsoft 4% 2055	33,085	0,74	
£7,000,000 Microsoft 4,5% 2040	5,824	0,13	
£25,000,000 Microsoft 4,75% 2055	21,029	0,46	
£500,000 Microsoft 5,2% 2039	456	0,01	
£3,000,000 Microsoft 5,3% 2041	2,776	0,06	
£760,181 Paragon Mortgages No.18 FRN 2041	758	0,02	
£3,986,000 Penarth Master Issuer FRN 2022	3,912	0,09	
£5,000,000 Permanent Master Issuer FRN '2A' 2042	5,007	0,11	
£22,000,000 Permanent Master Issuer Var. Rate 2042 (4,805%)	22,396	0,50	
£1,616,557 Precise Mortgage Funding FRN 2048	1,568	0,03	
£3,448,301 Residential Mortgage Securities No.28 FRN 2046	3,375	0,08	
£2,392,664 Rochester Financing No.1 FRN 2046	2,380	0,05	
£5,000,000 Silverstone Master Issuer FRN '2A2' 2055	5,035	0,11	
£6,584,000 Silverstone Master Issuer FRN 'A3' 2055	6,653	0,15	
£9,300,000 Silverstone Master Issuer FRN '1A' 2070	9,240	0,20	
£4,445,863 Slate FRN 2052	4,406	0,10	
£2,040,198 Tenterden Funding FRN 2044	2,042	0,05	
£4,944,871 Trinity Square FRN 2051	4,829	0,11	
£3,438,543 Warwick Finance Residential Mortgage FRN 2049	3,334	0,07	
'AA' credit rated bonds	636,383	14,17	7,82
£30,000,000 Apple 3,05% 2029	31,741	0,71	
\$4,000,000 Apple 3,45% 2045	2,775	0,06	
\$15,684,000 Apple 4,65% 2046	13,082	0,29	
£1,315,440 Autolink Concessionaires 8,39% 2022	1,597	0,04	
£815,000 Broadgate Financing 4,999% 2033	998	0,02	
£2,956,590 CTRL Section 1 Finance 5,234% 2035	3,730	0,08	
£5,000,000 Deutsche Bahn Finance 3,125% 2026	5,595	0,13	
\$2,298,000 GE Capital International Fund 4,418% 2035	1,905	0,04	
£4,500,000 GE Capital UK Funding 6,75% 2018	5,017	0,11	
\$716,000 General Electric Capital 5,875% 2038	712	0,02	
£14,824,000 General Electric Capital 6,25% 2020	17,774	0,40	
£2,810,580 General Electric Capital 6,44% 2022	3,185	0,07	
£3,577,101 Integrated Accommodation 6,48% 2029	4,557	0,10	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at 30 June Holding	2016 £'000	2016 %	2015 %	
'AA' credit rated bonds (continued)				
£960.000 Investor 5,5% 2037	1.306	0,03		
£6.807.000 JPMorgan Fleming Mercantile Investment Trust 6,125% 2030	8.585	0,19		
£7.037.000 Land Securities Capital Markets Var. Rate 2022 'A3' (5,425%)	8.032	0,18		
£14.500.000 Land Securities Capital Markets Var. Rate 2025 (4,875%)	17.262	0,38		
£14.000.000 Land Securities Capital Markets Var. Rate 2026 'A4' (5,391%)	17.131	0,38		
£16.000.000 Land Securities Capital Markets Var. Rate 2027 'A5' (5,391%)	20.096	0,45		
£1.500.000 Land Securities Capital Markets Var. Rate 2029 'A6' (5,376%)	1.926	0,04		
£4.500.000 Land Securities Capital Markets Var. Rate 2032 'A7' (5,396%)	5.958	0,13		
£2.500.000 LCR Finance 4,5% 2028	3.272	0,07		
£3.386.000 London & Quadrant Housing 2,625% 2026	3.549	0,08		
€519.733 Paragon Mortgages No.13 FRN 'A2B' 2039	380	0,01		
£398.162 Paragon Mortgages No.11 FRN 'A2A' 2041	350	0,01		
\$1.039.462 Paragon Mortgages No.13 FRN 'A2C' 2041	667	0,01		
\$2.000.000 Pfizer 7,2% 2039	2.242	0,05		
£2.600.000 Places for People 5,09% 2043	3.123	0,07		
£1.600.000 Places for People 8,625% 2020	1.836	0,04		
£2.600.000 Quadrant Housing Var. Rate 2033 (7,9%)	3.818	0,09		
£4.500.000 Réseau Ferré de France 4,83% 2060	7.290	0,16		
£10.000.000 Réseau Ferré de France 5% 2052	15.574	0,35		
£4.000.000 Réseau Ferré de France 5,25% 2028	5.397	0,12		
£6.000.000 Réseau Ferré de France 5,25% 2035	8.389	0,19		
£3.467.399 RSL Finance No.1 6,625% 2038	4.829	0,11		
\$1.000.000 Security Capital Group 7,7% 2028	1.030	0,02		
£3.400.000 Slate No.1 FRN 2051	3.250	0,07		
£8.000.000 SLM Student Loan Trust 5,15% 2039	6.420	0,14		
£14.000.000 SNCF 5,375% 2027	18.478	0,41		
£14.441.000 Towd Point Mortgage Funding FRN 2046	14.010	0,31		
£5.400.000 Trafford Centre Finance FRN 2038 A3	4.482	0,10		
£23.940.000 Transport for London 2,25% 2022	25.139	0,56		
£5.000.000 Treasury 0,125% IL 2024	6.176	0,14		
£5.000.000 Treasury 0,125% IL 2026	5.904	0,13		
£30.000.000 Treasury 0,125% IL 2044	47.673	1,06		
£25.000.000 Treasury 1,75% 2017	25.206	0,56		
£72.000.000 Treasury 3,25% 2044	94.852	2,11		
£20.000.000 Treasury 4,25% 2036	28.668	0,64		
£2.500.000 Treasury 4,5% 2034	3.640	0,08		
£70.000.000 Treasury 4,75% 2038	109.365	2,44		
\$4.000.000 Wal-Mart Stores 5,625% 2041	3.963	0,09		
\$2.500.000 Wal-Mart Stores 6,2% 2038	2.598	0,06		
£2.000.000 Warwick Finance Residential Mortgage FRN 2049	1.849	0,04		
	907.834	20,22	21,61	
'A' credit rated bonds				
£481.427 Aire Valley Mortgages FRN 05-1X2A1 2066	468	0,01		
\$7.047.562 Aire Valley Mortgages FRN 06-1A144A 2066	5.090	0,11		
£2.500.000 Aire Valley Mortgages FRN 06-1B3 2066	2.356	0,05		

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 %
'A' credit rated bonds (continued)			
£6.696.282 Aire Valley Mortgages FRN 06-2A2 2066	6.489	0,14	
\$2.480.534 Aire Valley Mortgages FRN 07-2A1 2066	1.793	0,04	
£3.224.694 Aire Valley Mortgages FRN 07-2A3 2066	3.105	0,07	
€2.000.000 Allianz Var. Rate 2042 (5,625%)	1.911	0,04	
\$716.000 Altria Group 10,2% 2039	974	0,02	
\$4.500.000 Altria Group 9,95% 2038	5.942	0,13	
€6.000.000 América Móvil 5% 2026	7.086	0,16	
\$3.500.000 América Móvil 6,125% 2040	3.117	0,07	
\$1.000.000 América Móvil 6,375% 2035	899	0,02	
€6.000.000 Amgen 4% 2029	6.771	0,15	
£15.500.000 Amgen 5,5% 2026	19.659	0,44	
£2.000.000 Anglian Water Services 5,837% 2022	2.474	0,06	
£8.000.000 Anglian Water Services Var. Rate 2023 (6,875%)	10.566	0,24	
£1.550.000 Anglian Water Services Var. Rate 2029 (6,625%)	2.242	0,05	
\$39.000.000 Anheuser-Busch InBev 3,65% 2026	30.657	0,69	
£7.000.000 Anheuser-Busch InBev 4% 2025	7.941	0,18	
£1.500.000 Anheuser-Busch InBev 6,5% 2017	1.576	0,04	
£1.000.000 Anheuser-Busch InBev 9,75% 2024	1.547	0,03	
€6.000.000 ASIF II Var. Rate 2020 (6,375%)	7.068	0,16	
£10.974.000 ASIF III Jersey 5% 2018	11.882	0,26	
£7.000.000 ASIF III Jersey 5,375% 2016	7.079	0,16	
£3.400.000 Bank of Scotland 2,64% 2020	5.635	0,13	
£12.000.000 BAT International Finance 4% 2026	13.676	0,30	
£4.500.000 BAT International Finance 6% 2022	5.541	0,12	
\$3.500.000 BG Energy Capital 4% 2020	2.801	0,06	
\$1.500.000 BG Energy Capital 4% 2021	1.205	0,03	
£5.700.000 BG Energy Capital 5,125% 2025	6.956	0,16	
£2.750.000 BG Energy Capital Var. Rate 2072 (6,5%)	2.869	0,06	
£2.121.935 BL Superstores Finance 5,27% 2030	2.357	0,05	
£1.840.720 Clavis Securities FRN 2032	1.688	0,04	
\$3.474.000 Cloverie 5,625% 2046	2.717	0,06	
£26.000.000 Comcast 5,5% 2029	34.467	0,77	
£4.453.262 Eddystone Finance FRN 'A2' 2021	4.332	0,10	
£50.000 Eddystone Finance FRN 'B' 2021	48	0,00	
£1.600.000 EDF 5,125% 2050	1.847	0,04	
£5.000.000 EDF 5,5% 2037	6.059	0,13	
£24.100.000 EDF 5,5% 2041	29.157	0,65	
\$8.000.000 EDF 6% 2114	6.346	0,14	
£5.500.000 EDF 6% 2114	6.995	0,16	
£7.300.000 EDF 6,125% 2034	9.357	0,21	
£6.650.000 ELM Var. Rate Perp. (6,3024%)	6.848	0,15	
\$5.000.000 EMD Finance 3,25% 2025	3.803	0,08	
£15.583.000 ENGIE (formerly GDF Suez) 5,95% 2111	22.310	0,50	
£2.596.602 Eurosail FRN 2044	2.442	0,05	
£799.002 Eurosail FRN 2045	741	0,02	
£18.500.000 Experian Finance 4,75% 2018	19.946	0,44	
\$3.958.093 Great Hall Mortgages No.1 FRN 2039	2.661	0,06	
£2.640.000 Greene King Finance 4,0643% 2035	2.762	0,06	
£2.455.206 Greene King Finance 5,318% 2031	2.810	0,06	
£23.600.000 Heathrow Funding 6,75% 2028	32.728	0,73	
£4.500.000 Heathrow Funding Var. Rate 2023 (9,2%)	5.953	0,13	
£2.500.000 Heathrow Funding Var. Rate 2025 (5,225%)	2.959	0,07	
£10.353.000 Heathrow Funding Var. Rate 2030 (7,075%)	15.002	0,33	
£11.550.000 HSBC Bank Var. Rate 2030 (5,375%)	12.400	0,28	
£4.808.000 INTU Finance 4,25% 2030	5.308	0,12	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 %
'A' credit rated bonds (continued)			
£5.500.000 INTU Finance 4,625% 2028	6.324	0,14	
£26.000.000 JPMorgan Chase 3,5% 2026	27.930	0,63	
£15.000.000 JPMorgan Chase 5,375% 2016	15.129	0,34	
\$3.000.000 JPMorgan Chase 6,3% 2019	2.493	0,06	
£2.000.000 Linde Finance Var. Rate 2066 (8,125%)	2.002	0,04	
£5.902.000 London Merchant Securities 6,5% 2026	7.733	0,17	
£1.750.000 Longstone Finance 4,896% 2036	1.934	0,04	
£885.000 Marstons Issuer Var. Rate 2027 (5,1576%)	896	0,02	
£2.000.000 Marstons Issuer Var. Rate 2032 (5,1774%)	2.202	0,05	
£4.073.520 Mitchells & Butlers Finance 5,574% 2030	4.626	0,10	
£827.326 Mitchells & Butlers Finance 5,965% 2025	918	0,02	
£1.367.160 Mitchells & Butlers Finance 6,013% 2030	1.575	0,04	
£3.000.000 Mitchells & Butlers Finance FRN 2033	2.160	0,05	
£1.967.418 Money Partners Securities FRN 2040	1.818	0,04	
£1.754.123 Mortgages No.7 FRN 2038	1.614	0,04	
£8.000.000 Motability Operations Group 6,625% 2019	9.438	0,21	
£15.000.000 Munich Re Finance Var. Rate 2028 (7,625%)	16.349	0,36	
£12.300.000 Munich Re Finance Var. Rate 2042 (6,625%)	13.977	0,31	
£3.500.000 National Grid Electricity Transmission 2,983% IL 2018	5.588	0,12	
£3.000.000 National Grid Electricity Transmission 3,806% IL 2020	5.287	0,12	
£1.000.000 National Grid Electricity Transmission 6,5% 2028	1.435	0,03	
£6.011.082 NATS En Route 5,25% 2026	7.023	0,16	
£1.575.616 Newgate Funding FRN 2050	1.423	0,03	
£2.590.000 Northern Electric Finance 8,875% 2020	3.367	0,07	
£1.133.000 Northern Powergrid 2,5% 2025	1.167	0,03	
£3.750.000 Northern Powergrid 4,375% 2032	4.447	0,10	
£2.000.000 Northern Powergrid 7,25% 2022	2.604	0,06	
\$1.648.912 Paragon Mortgages No.7 FRN 2034	1.082	0,02	
£221.544 PICTS 5,218% 2039	252	0,01	
£2.530.000 Province of Quebec 12,25% 2020	3.491	0,08	
£1.095.200 Residential Mortgage Securities FRN 2038	999	0,02	
£4.504.932 Residential Mortgage Securities No.22 A3A FRN 2039	4.076	0,09	
£962.809 RMAC 2006-Ns1 FRN 2044	847	0,02	
£79.081 Sandwell Commercial Finance No.2 FRN 2037	76	0,00	
£3.000.000 Shell International Finance 2% 2019	3.088	0,07	
\$2.000.000 Shell International Finance 4% 2046	1.508	0,03	
£12.000.000 Southern Water Services Finance 5% 2021	13.762	0,31	
£14.000.000 Southern Water Services Finance 6,125% 2019	15.747	0,35	
£145.000 SPI Electricity & Gas 7,125% 2018	161	0,00	
£3.500.000 SSE 5% 2018	3.790	0,08	
£1.500.000 SSE 8,375% 2028	2.352	0,05	

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 %
'A' credit rated bonds (continued)			
£2.690.000 Standard Life Var. Rate Perp. (6,546%)	2.740	0,06	
£5.500.000 Standard Life Var. Rate Perp. (6,75%)	5.761	0,13	
£2.500.000 Suncorp Insurance Funding Var. Rate 2027 (6,25%)	2.488	0,06	
£7.000.000 Thames Water Utilities Cayman 4% 2025	7.997	0,18	
£10.000.000 Thames Water Utilities Cayman 4,375% 2034	11.875	0,26	
£5.000.000 Thames Water Utilities Cayman 4,625% 2046	6.409	0,14	
£20.000.000 Thames Water Utilities Cayman 7,241% 2058	21.869	0,49	
£3.727.000 Thames Water Utilities Finance 3,375% IL 2021	6.613	0,15	
£1.485.000 Thames Water Utilities Finance 3,5% 2028	1.617	0,04	
£3.590.000 Thames Water Utilities Finance 5,125% 2037	4.733	0,11	
£600.000 Thames Water Utilities Finance 6,5% 2032	862	0,02	
£16.000.000 Thames Water Utilities Finance 6,75% 2028	23.027	0,51	
£2.000.000 UNITE (USAF) II 3,374% 2023	2.145	0,05	
£1.152.000 UNITE (USAF) II 3,921% 2030	1.290	0,03	
£9.000.000 Wales & West Utilities 4,625% 2023	10.511	0,23	
£8.000.000 Wales & West Utilities 5% 2028	9.927	0,22	
£4.500.000 Wales & West Utilities 5,75% 2030	6.010	0,13	
\$2.500.000 Wells Fargo 4,1% 2026	1.966	0,04	
£5.500.000 Wells Fargo 4,875% 2035	6.243	0,14	
£40.000.000 Wells Fargo 5,25% 2023	46.767	1,05	
£5.000.000 Western Power Distribution 3,875% 2024	5.558	0,12	
£10.000.000 Western Power Distribution 5,25% 2023	11.828	0,26	
£6.000.000 Western Power Distribution 5,75% 2040	8.449	0,19	
£24.000.000 Western Power Distribution 6% 2025	30.914	0,69	
\$1.000.000 Willow No.2 (Ireland) Var. Rate 2045 (4,25%)	706	0,02	
£3.426.000 Yorkshire Power Finance 7,25% 2028	4.966	0,11	
£5.000.000 Yorkshire Water Services 3,625% 2029	5.591	0,12	
£10.000.000 Yorkshire Water Services 6% 2019	11.435	0,25	
£6.000.000 Yorkshire Water Services Odsal Finance 6,5876% 2023	7.585	0,17	
£5.420.000 Zurich Finance (UK) Var. Rate Perp. (6,625%)	5.844	0,13	
'BBB' credit rated bonds	1.794.039	39,95	39,10
£2.000.000 3i Group 6,875% 2023	2.470	0,06	
£1.250.000 3i Group Var. Rate. 2032 (5,75%)	1.547	0,03	
£3.000.000 AA Bond Company 4,2487% 2043	3.105	0,07	
\$1.538.000 Actavis Funding 3,45% 2022	1.177	0,03	
\$2.500.000 Actavis Funding 3,8% 2025	1.924	0,04	
£3.778.000 América Móvil Var. Rate 2073 (6,375%)	3.921	0,09	
£5.000.000 Anglian Water Services 4,5% 2026	5.694	0,13	
£2.750.000 AP Moller-Maersk 4% 2025	2.892	0,06	
£4.100.000 APT Pipelines 4,25% 2024	4.399	0,10	
\$2.500.000 AT&T 3,95% 2025	1.964	0,04	
£5.000.000 AT&T 4,25% 2043	5.361	0,12	
£12.000.000 AT&T 4,375% 2029	13.497	0,30	
\$3.000.000 AT&T 4,8% 2044	2.278	0,05	
£37.820.000 AT&T 4,875% 2044	44.280	0,99	
£2.250.000 AT&T 5,2% 2033	2.738	0,06	
£2.000.000 AT&T 5,5% 2027	2.476	0,06	

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Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
\$10,000,000 AT&T 5,55% 2041	8,255	0,18	
\$14,807,000 AT&T 5,65% 2047	12,596	0,28	
\$1,000,000 AT&T 6,3% 2038	886	0,02	
\$4,000,000 AT&T 6,35% 2039	3,539	0,08	
\$750,000 AT&T 6,375% 2041	675	0,02	
\$8,000,000 AT&T 6,5% 2037	7,233	0,16	
\$10,000,000 AT&T 6,55% 2039	9,116	0,20	
£21,100,000 Aviva Var. Rate 2036 (6,125%)	21,919	0,49	
£7,584,000 Aviva Var. Rate 2041 (6,625%)	8,102	0,18	
£11,500,000 Aviva Var. Rate 2058 (6,875%)	12,379	0,28	
£26,500,000 Aviva Var. Rate Perp. (6,125%)	26,522	0,59	
€2,500,000 AXA Var. Rate 2040 (5,25%)	2,278	0,05	
£10,000,000 AXA Var. Rate 2054 (5,625%)	9,560	0,21	
£6,500,000 AXA Var. Rate Perp. (5,453%)	6,276	0,14	
£14,630,000 AXA Var. Rate Perp. (6,6862%)	15,012	0,33	
£15,000,000 BAE Systems 4,125% 2022	16,606	0,37	
\$5,000,000 Bank of America 3,3% 2023	3,809	0,09	
\$2,672,000 Bank of America 3,95% 2025	2,006	0,04	
\$7,500,000 Bank of America 4,25% 2026	5,729	0,13	
\$4,000,000 Bank of America 5,5% 2019	4,468	0,10	
\$1,000,000 Bank of America 5,5% 2021	1,127	0,03	
£18,000,000 Bank of America 6,125% 2021	21,382	0,48	
£5,000,000 Bank of Scotland 6,375% 2019	5,464	0,12	
€2,250,000 BNP Paribas 2,375% 2025	1,833	0,04	
€1,159,000 BNP Paribas 2,75% 2026	957	0,02	
£12,000,000 Bouygues 5,5% 2026	14,879	0,33	
£6,264,000 British Telecommunications 3,5% IL 2025	12,500	0,28	
£5,000,000 British Telecommunications 5,75% 2028	6,515	0,15	
£2,000,000 British Telecommunications 6,625% 2017	2,104	0,05	
£10,000,000 British Telecommunications Var. Rate 2016 (8,5%)	10,303	0,23	
\$8,250,000 British Telecommunications Var. Rate 2030 (9,875%)	9,465	0,21	
£11,000,000 BSkyB Finance UK 5,75% 2017	11,615	0,26	
\$1,000,000 CBS 4,3% 2021	803	0,02	
\$2,000,000 Centrica 4% 2023	1,558	0,03	
£2,500,000 Centrica 7% 2018	2,800	0,06	
£4,500,000 Channel Link Enterprises Finance FRN 2050	4,208	0,09	
\$4,834,000 Citigroup 4,4% 2025	3,718	0,08	
\$4,985,000 Citigroup 5,5% 2025	4,116	0,09	
€2,697,000 Commerzbank 4% 2026	2,279	0,05	
£2,500,000 Compagnie de St. Gobain 5,625% 2024	3,048	0,07	
£6,000,000 CPMK Finance 7,239% 2042	7,594	0,17	
£3,000,000 Daily Mail & General Trust 5,75% 2018	3,210	0,07	
£5,500,000 Daily Mail & General Trust 6,375% 2027	6,254	0,14	
\$1,000,000 Delphi 4,25% 2026	804	0,02	
\$6,000,000 Deutsche Telekom International Finance 4,875% 2042	5,170	0,12	
£11,000,000 Deutsche Telekom International Finance 6,5% 2022	13,874	0,31	
\$5,000,000 Deutsche Telekom International Finance 8,75% 2030	5,597	0,12	
£13,000,000 Deutsche Telekom International Finance 8,875% 2028	21,312	0,47	

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
£4,000,000 Deutsche Telekom International Finance Var. Rate 2030 (7,625%)	6,131	0,14	
\$1,278,000 Dow Chemical 4,625% 2044	999	0,02	
\$3,000,000 E.ON International Finance 6,65% 2038	2,627	0,06	
£7,000,000 Enel Finance International 5,625% 2024	8,480	0,19	
£4,850,000 Enel Finance International 5,75% 2040	6,241	0,14	
\$1,000,000 Energy Transfer Partners 4,9% 2024	753	0,02	
\$500,000 Energy Transfer Partners 4,9% 2035	334	0,01	
\$1,000,000 Energy Transfer Partners 6,125% 2045	759	0,02	
\$1,500,000 Energy Transfers Partners 4,05% 2025	1,088	0,02	
\$3,572,000 Energy Transfers Partners 6,5% 2042	2,735	0,06	
£4,000,000 ENGIE (formerly GDF Suez) Var. Rate Perp. (4,625%)	4,110	0,09	
£9,100,000 Eni Finance International 4,75% 2021	10,138	0,23	
£5,000,000 Eni Finance International 6,125% 2018	5,525	0,12	
\$1,500,000 Enlink Midstream 4,15% 2025	1,002	0,02	
£132,000 ENW Capital Finance 6,125% 2021	159	0,00	
£2,000,000 Eversholt Funding 5,831% 2020	2,321	0,05	
£13,113,000 Eversholt Funding 6,359% 2025	17,050	0,38	
£6,500,000 Eversholt Funding 6,697% 2035	8,874	0,20	
£1,042,000 FCE Bank 1% 2018	1,062	0,02	
£2,116,000 FCE Bank 2,727% 2022	2,158	0,05	
£5,000,000 FCE Bank 2,759% 2019	5,130	0,11	
£6,500,000 Fidelity International 6,75% 2020	7,551	0,17	
£1,500,000 FirstGroup 6,125% 2019	1,637	0,04	
£8,000,000 FirstGroup 6,875% 2024	9,862	0,22	
£7,000,000 FirstGroup 8,125% 2018	7,864	0,18	
\$11,960,000 Ford Motor Credit 4,389% 2026	9,592	0,21	
£6,000,000 G4S 7,75% 2019	6,823	0,15	
£14,750,000 Gatwick Funding 5,25% 2024	17,631	0,39	
£16,000,000 Gatwick Funding 6,125% 2028	20,879	0,46	
\$1,500,000 General Motors Financial 4% 2025	1,114	0,02	
\$2,500,000 General Motors Financial 4,3% 2025	1,890	0,04	
\$1,711,000 General Motors Financial 6,6% 2036	1,439	0,03	
£5,000,000 GKN Holdings 5,375% 2022	5,673	0,13	
£7,500,000 GKN Holdings 6,75% 2019	8,500	0,19	
£6,750,000 Go-Ahead Group 5,375% 2017	7,048	0,16	
£3,500,000 Goldman Sachs Group 5,5% 2021	3,877	0,09	
£4,800,000 Goldman Sachs Group 6,875% 2038	6,230	0,14	
£4,200,000 Goldman Sachs Group 7,125% 2025	5,654	0,13	
£3,010,000 Grainger 5% 2020	3,036	0,07	
£5,000,000 Great Rolling Stock 6,25% 2020	5,804	0,13	
£4,998,000 H.J. Heinz Finance 6,25% 2030	6,374	0,14	
\$1,700,000 HCA Holdings 4,25% 2019	1,309	0,03	
\$955,000 HCA Holdings 5% 2024	727	0,02	
\$2,308,000 HCA Holdings 5,25% 2025	1,782	0,04	
\$1,000,000 HCA Holdings 5,875% 2022	804	0,02	
\$1,000,000 HCA Holdings 6,5% 2020	820	0,02	
£8,500,000 Heathrow Funding 6% 2020	9,619	0,21	
£2,500,000 Heathrow Funding 7,125% 2024	3,191	0,07	
£607,000 Hiscox Var. Rate 2045 (6,125%)	598	0,01	
£5,500,000 HSBC Holdings 5,75% 2027	6,012	0,13	
£10,600,000 HSBC Holdings 6,75% 2028	12,233	0,27	
£5,500,000 Iberdrola Finanzas 6% 2022	6,707	0,15	
£3,500,000 Iberdrola Finanzas 7,375% 2024	4,661	0,10	
£1,000,000 Imperial Tobacco Finance 5,5% 2016	1,015	0,02	
£6,000,000 Imperial Tobacco Finance 5,5% 2026	7,406	0,16	

M&G Corporate Bond Fund

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Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
£2,500,000 Imperial Tobacco Finance 6,25% 2018	2,775	0,06	
£7,500,000 Imperial Tobacco Finance 7,75% 2019	8,788	0,20	
£20,000,000 Imperial Tobacco Finance 8,125% 2024	27,362	0,61	
£34,000,000 Imperial Tobacco Finance Var. Rate 2022 (9%)	45,888	1,02	
£8,450,000 ING Bank Var. Rate 2023 (6,875%)	9,056	0,20	
£5,500,000 InterContinental Hotels 3,875% 2022	5,872	0,13	
£8,000,000 InterContinental Hotels 6% 2016	8,151	0,18	
£8,431,000 INTU Finance 4,125% 2028	9,242	0,21	
£22,400,000 Italy (Republic of) 6% 2028	28,179	0,63	
\$15,000,000 JPMorgan Chase 3,875% 2024	11,461	0,26	
\$6,000,000 JPMorgan Chase 4,125% 2026	4,678	0,10	
£14,000,000 JPMorgan Chase Var. Rate 2017 (6,125%)	13,890	0,31	
\$2,000,000 JPMorgan Chase Var. Rate Perp. (7,9%)	1,501	0,03	
£3,231,472 Juturna 5,0636% 2033	3,841	0,09	
\$1,000,000 Kerr-McGee 6,95% 2024	856	0,02	
\$1,133,000 Kinder Morgan 4,3% 2025	856	0,02	
\$3,500,000 Kinder Morgan 5,05% 2046	2,457	0,05	
\$367,000 Kinder Morgan Energy Partners 3,95% 2022	275	0,01	
\$3,000,000 Kinder Morgan Energy Partners 4,15% 2024	2,220	0,05	
\$1,150,000 Kinder Morgan Energy Partners 4,25% 2024	857	0,02	
\$6,000,000 Kinder Morgan Energy Partners 6,95% 2038	4,881	0,11	
£12,500,000 KPN 5% 2026	14,823	0,33	
£10,750,000 KPN 5,75% 2029	13,613	0,30	
£8,000,000 Kraft Foods Group 4,125% 2027	8,784	0,20	
£23,000,000 Legal & General Group 10% IL 2041	28,723	0,64	
£15,000,000 Legal & General Group 5,375% 2045	14,817	0,33	
£11,000,000 Legal & General Group 5,5% 2064	9,647	0,21	
£12,500,000 Lend Lease Europe 6,125% 2021	14,285	0,32	
€748,486 Leo-Mesdag FRN 2019	614	0,01	
€1,980,000 Liberty Mutual Group 2,75% 2026	1,664	0,04	
£3,000,000 Liverpool Victoria Friendly Society Var. Rate 2043 (6,5%)	2,858	0,06	
£10,000,000 Lloyds Bank 7,625% 2025	12,128	0,27	
£2,000,000 Lloyds Bank Var. Rate 2021 (10,75%)	2,063	0,05	
£15,532,000 Lloyds Bank Var. Rate 2025 (5,75%)	16,385	0,36	
\$2,500,000 LYB International Finance 4,875% 2044	1,949	0,04	
\$3,000,000 LyondellBasell Industries 4,625% 2055	2,121	0,05	
£4,000,000 Marks & Spencer 6,125% 2021	4,657	0,10	
\$10,000,000 Marks & Spencer 7,125% 2037	8,881	0,20	
£1,400,000 McDonalds 4,125% 2054	1,575	0,04	
£3,500,000 McDonalds 5,875% 2032	4,598	0,10	
\$1,250,000 McDonalds 6,3% 2037	1,209	0,03	
\$2,000,000 McDonalds 6,3% 2038	1,942	0,04	
£11,000,000 McDonalds 6,375% 2020	12,844	0,29	
£2,500,000 Merrill Lynch 7,75% 2018	2,767	0,06	
£15,000,000 Mexico (United Mexican States) 5,625% 2114	14,063	0,31	
£14,500,000 Mondelēz International 3,875% 2045	14,413	0,32	

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
£24,000,000 Mondelēz International 4,5% 2035	26,397	0,59	
\$12,500,000 Monsanto 4,4% 2044	9,074	0,20	
\$2,000,000 Morgan Stanley 3,7% 2024	1,546	0,03	
\$2,000,000 Morgan Stanley 3,95% 2027	1,487	0,03	
\$1,000,000 Morgan Stanley 4,1% 2023	768	0,02	
\$8,500,000 Morgan Stanley 4,35% 2026	6,560	0,15	
\$1,000,000 Morgan Stanley 4,875% 2022	806	0,02	
£1,000,000 MUFG Capital Finance Var. Rate Perp. (6,299%)	1,015	0,02	
£5,893,000 Next 3,625% 2028	5,995	0,13	
£6,500,000 NEXT 4,375% 2026	7,124	0,16	
£1,500,000 NEXT 5,375% 2021	1,731	0,04	
£12,000,000 NEXT 5,875% 2016	12,139	0,27	
£10,000,000 NGG Finance Var. Rate 2073 (5,625%)	10,435	0,23	
£5,000,000 NIE Finance 6,375% 2026	6,669	0,15	
£11,000,000 Northern Gas Networks 5,875% 2019	12,457	0,28	
£8,000,000 Northumbrian Water 6% 2017	8,473	0,19	
£9,610,000 Northumbrian Water 6,875% 2023	12,385	0,28	
£2,500,000 Orange 5,375% 2050	3,438	0,08	
£19,250,000 Orange 8,125% 2028	29,785	0,66	
\$12,000,000 Orange 8,5% 2031	13,741	0,31	
€7,500,000 Orange Var. Rate Perp. (5%)	6,441	0,14	
£5,850,000 Orange Var. Rate Perp. (5,75%)	5,907	0,13	
\$13,500,000 Pearson Funding Four 3,75% 2022	10,048	0,22	
\$2,500,000 Pernod-Ricard 4,25% 2022	2,021	0,05	
\$3,500,000 Pernod-Ricard 4,45% 2022	2,851	0,06	
\$3,000,000 Pernod-Ricard 5,75% 2021	2,557	0,06	
£3,175,000 PostNL 7,5% 2018	3,573	0,08	
£4,000,000 Rabobank Nederland 4,625% 2029	4,066	0,09	
£2,600,000 Reed Elsevier Investments 2,75% 2019	2,700	0,06	
£10,500,000 Reed Elsevier Investments 5,625% 2016	10,628	0,24	
£5,450,000 Reed Elsevier Investments 7% 2017	5,880	0,13	
\$5,000,000 Reynolds American 4,45% 2025	4,131	0,09	
\$1,000,000 Reynolds American 6,15% 2043	964	0,02	
£3,722,000 RL Finance Bonds 6,125% 2043	3,875	0,09	
€3,422,000 Royal Bank of Scotland 2,5% 2023	2,793	0,06	
£1,500,000 Santander Var. Rate 2023 (9,625%)	1,716	0,04	
£1,000,000 Scottish Widows 5,5% 2023	1,022	0,02	
£1,000,000 Severn Trent 1,3% IL 2022	1,090	0,02	
£6,000,000 Severn Trent Utilities Finance 3,625% 2026	6,660	0,15	
£5,000,000 Severn Trent Utilities Finance 6% 2018	5,359	0,12	
£1,250,000 Severn Trent Utilities Finance 6,125% 2024	1,592	0,04	
£11,162,000 Severn Trent Utilities Finance 6,25% 2029	15,615	0,35	
£2,000,000 SKY 2,875% 2020	2,091	0,05	
£2,500,000 SKY 4% 2029	2,688	0,06	
\$2,000,000 SKY 9,5% 2018	1,716	0,04	
£3,000,000 South East Water Finance 5,6577% 2019	3,351	0,07	
£6,176,000 South Eastern Power Networks 5,5% 2026	7,807	0,17	
£8,100,000 South Eastern Power Networks Var. Rate 2031 (6,375%)	11,553	0,26	
£5,000,000 Southern Gas Networks 4,875% 2023	5,898	0,13	
£17,390,000 Southern Gas Networks 5,125% 2018	18,920	0,42	
£800,000 Southern Gas Networks 6,375% 2040	1,212	0,03	
£2,200,000 Southern Water Services Finance Var. Rate 2038 (4,5%)	2,384	0,05	
£14,000,000 Spain (Kingdom of) 5,25% 2029	16,603	0,37	
\$1,000,000 Telefónica (Europe) 8,25% 2030	1,058	0,02	

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Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
£23,400,000 Telefónica Emisiones 5,289% 2022	27,276	0,61	
£4,500,000 Telefónica Emisiones 5,375% 2026	5,378	0,12	
£5,000,000 Telefónica Emisiones 5,445% 2029	6,109	0,14	
£11,500,000 Telefónica Emisiones 5,597% 2020	12,974	0,29	
\$1,000,000 Telefónica Emisiones 7,045% 2036	937	0,02	
£222,310 Telereal Securitisation 6,1645% 2033	257	0,01	
£8,000,000 Thames Water Utilities Cayman Var. Rate 2025 (5,375%)	8,239	0,18	
£6,500,000 Thames Water Utilities Cayman Var. Rate 2030 (5,75%)	7,484	0,17	
\$1,250,000 Time Warner 3,6% 2025	981	0,02	
\$1,000,000 Time Warner 7,625% 2031	1,018	0,02	
\$3,000,000 Time Warner 7,7% 2032	3,076	0,07	
£19,500,000 Time Warner Cable 5,25% 2042	20,137	0,45	
£3,000,000 Time Warner Cable 5,75% 2031	3,342	0,07	
\$4,000,000 United Business Media 5,75% 2020	3,209	0,07	
£9,500,000 United Business Media 6,5% 2016	9,678	0,22	
£3,000,000 United Utilities Water 5,625% 2027	3,909	0,09	
£3,813,000 Vector Group 7,625% 2019	4,308	0,10	
£5,333,000 Verizon Communications 4,073% 2024	6,036	0,13	
\$13,870,000 Verizon Communications 4,272% 2036	10,485	0,23	
\$11,917,000 Verizon Communications 4,4% 2034	9,137	0,20	
\$7,784,000 Verizon Communications 4,522% 2048	5,957	0,13	
\$31,788,000 Verizon Communications 4,672% 2022	23,532	0,52	
\$43,000,000 Verizon Communications 5,012% 2054	33,490	0,75	
\$2,019,000 Verizon Communications 5,85% 2035	1,811	0,04	
\$4,000,000 Verizon Communications 6% 2041	3,642	0,08	
\$986,000 Vodafone Group 6,15% 2037	837	0,02	
\$1,000,000 Vodafone Group 7,875% 2030	971	0,02	
£23,500,000 Vodafone Group 8,125% 2018	27,240	0,61	
£1,000,000 Wales & West Utilities Finance Var. Rate 2036 (6,75%)	1,102	0,02	
£6,000,000 Walgreens Boots Alliance 2,875% 2020	6,160	0,14	
£4,167,000 Walgreens Boots Alliance 3,6% 2025	4,356	0,10	
£7,500,000 Welltower (formerly Health Care) 4,5% 2034	8,107	0,18	
£2,198,000 Welltower (formerly Health Care) 4,8% 2028	2,493	0,06	
£8,000,000 WPP Finance 6,375% 2020	9,554	0,21	
£17,000,000 WPP Group 6% 2017	17,571	0,39	
£5,552,000 Yorkshire Water Services Var. Rate 2025 (6%)	5,726	0,13	
'BB' credit rated bonds	141,151	3,15	3,24
\$864,000 CCO Holdings Capital 5,125% 2023	638	0,01	
\$750,000 CCO Holdings Capital 5,125% 2023 144A	559	0,01	
£325,996 Coventry & Rugby Hospital 3,246% IL 2040	569	0,01	
£6,146,631 Delamare Finance 5,5457% 2029	6,057	0,14	
£1,600,000 EDF 5,875% Perp.	1,347	0,03	
£300,000 EDF Var. Rate Perp. (6%)	270	0,01	
\$2,500,000 EDP Finance 4,125% 2020	1,909	0,04	
£3,000,000 Enel Var. Rate 2076 (6,625%)	3,054	0,07	
£2,000,000 Enterprise Inns 6,375% 2031	1,869	0,04	
£5,000,000 Enterprise Inns 6,875% 2025	4,896	0,11	
€1,347,000 Gestamp Funding Luxembourg 3,5% 2023	1,134	0,03	
\$1,000,000 GTE Southwest 8,5% 2031	806	0,02	
£3,500,000 KPN Var. Rate 2073 (6,875%)	3,611	0,08	
€1,000,000 KPN Var. Rate Perp. (6,125%)	880	0,02	

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 %
'BB' credit rated bonds (continued)			
€1,769,000 Lincoln Finance 6,875% 2021	1,562	0,04	
£3,367,000 Lloyds Banking Group Var. Rate Perp. (7,875%)	3,167	0,07	
£3,000,000 Lloyds Banking Group Var. Rate Perp. (7,625%)	2,813	0,06	
\$2,000,000 Methanex 4,25% 2024	1,309	0,03	
\$1,500,000 Methanex 5,25% 2022	1,126	0,03	
£3,000,000 National Westminster Bank 6,5% 2021	3,291	0,07	
\$3,300,000 Royal Bank of Scotland 6% 2023	2,500	0,06	
\$7,059,000 Royal Bank of Scotland 6,1% 2023	5,362	0,12	
\$6,000,000 Royal Bank of Scotland 6,125% 2022	4,652	0,10	
€1,000,000 Royal Bank of Scotland 6,934% 2018	893	0,02	
\$750,000 Société Générale Var. Rate Perp. (7,875%)	509	0,01	
£4,325,000 Société Générale Var. Rate Perp. (8,875%)	4,642	0,10	
£3,350,000 Telecom Italia 5,875% 2023	3,735	0,08	
£2,500,000 Telecom Italia 7,375% 2017	2,680	0,06	
€1,500,000 Telefónica (Europe) Var. Rate Perp. (6,5%)	1,297	0,03	
£5,000,000 Telefónica (Europe) Var. Rate Perp. (6,75%)	5,060	0,11	
£27,823,876 Tesco Property Finance 3 5,744% 2040	26,022	0,58	
£11,830,798 Tesco Property Finance 4 5,8006% 2040	10,900	0,24	
£13,356,232 Tesco Property Finance 5 5,6611% 2041	11,930	0,27	
€2,000,000 UBS Var. Rate Perp. (5,75%)	1,661	0,04	
€2,000,000 Unitymedia Hessen 3,5% 2027	1,589	0,04	
€2,000,000 Unitymedia Hessen 6,25% 2029	1,832	0,04	
£2,700,000 Veolia Environnement Var. Rate Perp. (4,85%)	2,749	0,06	
£1,000,000 Virgin Media Secured Finance 4,875% 2027	929	0,02	
£1,000,000 Virgin Media Secured Finance 5,125% 2025	972	0,02	
£9,000,000 Virgin Media Secured Finance 5,5% 2021	9,484	0,21	
€1,052,000 Worldpay Finance 3,75% 2022	886	0,02	
'B' credit rated bonds	5,915	0,13	0,13
€1,820,000 Numericable SFR Group 5,375% 2022	1,525	0,03	
\$2,390,000 Numericable SFR Group 7,375% 2026	1,737	0,04	
£110,849 Road Management Consolidated 9,18% 2021	120	0,00	
\$1,000,000 Sprint Capital 6,875% 2028	567	0,01	
\$1,500,000 Sprint Capital 6,9% 2019	1,060	0,03	
\$1,500,000 Sprint Corporation 7,875% 2023	906	0,02	
Bonds with no credit rating	515,041	11,47	11,11
£1,000,000 Admiral 5,5% 2024	983	0,02	
£3,500,000 AmicusHorizon Finance 5,25% 2043	4,587	0,10	
\$2,140,000 Aquarius Plus Investments 8,25% IL Perp.	1,676	0,04	
€1,822,000 Assicurazioni Generali Var. Rate 2047 (5,5%)	1,543	0,03	
£10,050,000 Assicurazioni Generali Var. Rate Perp. (6,269%)	9,368	0,21	
£700,000 Assicurazioni Generali Var. Rate Perp. (6,416%)	665	0,01	
£2,000,000 Barclays Bank 9,5% 2021	2,437	0,05	
£700,000 Birmingham Airport Finance 6,25% 2021	813	0,02	
£7,500,000 Brit Insurance 6,625% 2030	7,120	0,16	
£902,000 British Land (BR) 5,264% 2035	1,090	0,02	
£1,308,000 British Land (RG) 5,264% 2035	1,586	0,04	
£4,353,324 British Land 5,357% 2028	5,197	0,11	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 %
Bonds with no credit rating (continued)			
£5.695.000 British Land 5,357% 2028 (Bearer)	6.843	0,15	
£205.304 Capital Shopping Centres 5,562% 2027	245	0,01	
£2.500.000 Carlsberg Breweries 7,25% 2016	2.558	0,06	
£350.000 Cheltenham & Gloucester 11,75% Perp.	621	0,01	
£1.015.000 Close Brothers Finance 3,875% 2021	1.080	0,02	
£2.500.000 Coventry Building Society FRN 2020	2.487	0,06	
£2.703.000 CRH Finance 4,125% 2029	2.957	0,07	
£8.920.000 Delamare Finance 6,067% 2029	8.400	0,19	
£4.022.000 Duncan Funding FRN 2063	4.010	0,09	
£2.400.000 Federal National Mortgage Association 5,375% 2021	2.871	0,06	
£5.601.000 Federal National Mortgage Association 5,375% 2028	7.690	0,17	
£3.277.647 Fintrust Debenture 9,25% 2023	4.569	0,10	
£1.776.237 Gemgarto 2015-1 FRN 2047	1.745	0,04	
£10.000.000 GESB 8,35% 2018	11.314	0,25	
£458.072 Gosforth Funding FRN 2049	458	0,01	
£5.230.186 Gosforth Funding FRN 2058	5.202	0,12	
£4.000.000 Grand Union 4,625% 2043	4.882	0,11	
£34.120 Great Portland Estates 5,625% 2029	43	0,00	
£1.881.078 Greater Gabbard Ofco 4,137% 2032	2.154	0,05	
£7.800.000 Grosvenor UK Finance 6,5% 2026	10.504	0,23	
£721.000 Guardian Royal Exchange 6,625% 2023	903	0,02	
£12.000.000 Hammerson 6% 2026	15.096	0,34	
£6.000.000 Hammerson 7,25% 2028	8.405	0,19	
£1.000.000 Heathrow Finance 5,75% 2025	1.030	0,02	
£2.000.000 Heathrow Finance 7,125% 2017	2.054	0,05	
£4.406.931 Highbury Finance 7,017% 2023	5.117	0,11	
£2.192.000 Housing Finance 5% 2027	2.589	0,06	
£3.000.000 Housing Finance 8,625% 2023	4.230	0,09	
£8.500.000 Housing Finance 11,5% 2016	8.804	0,20	
£8.271.321 Housing Securities 8,375% 2019	9.622	0,21	
£4.482.000 John Lewis 6,125% 2025	5.423	0,12	
£20.000.000 John Lewis 8,375% 2019	23.393	0,52	
£3.000.000 LAB Investments 7,125% 2019	3.417	0,08	
£553.000 Land Securities Capital Markets 5,391% 2027	694	0,02	
£55.000.000 Lloyds Bank 5,125% 2025	69.577	1,55	
£5.500.000 Lloyds Bank 9,625% 2023	7.150	0,16	
£2.938.000 Manchester Airport Funding 4,75% 2034	3.602	0,08	
£3.478.000 Midland Heart Capital 5,087% 2044	4.733	0,11	
£7.477.000 Moat Homes Finance 5% 2041	9.421	0,21	
£17.500.000 National Express 6,25% 2017	17.923	0,40	
£2.500.000 National Express 6,625% 2020	2.932	0,07	
£2.400.000 Nationwide Building Society 8,625% 2018	2.625	0,06	
£1.719.000 Old Mutual 7,875% 2025	1.749	0,04	
£12.000.000 Old Mutual 8% 2021	12.771	0,28	
£3.241.000 Orbit Group 3,5% 2045	3.337	0,07	
£1.311.000 Orbita Funding FRN 2023	1.307	0,03	
£5.910.278 Paragon Mortgages No.22 FRN 2042	5.769	0,13	
£9.300.000 Peel South East 10% 2026	13.867	0,31	
£5.000.000 Pennon Group Var. Rate Perp. (6,75%)	5.165	0,12	
£10.000.000 Phoenix Natural Gas Finance 5,5% 2017	10.396	0,23	
£9.598.000 Places for People 5,875% 2031	12.064	0,27	

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 %
Bonds with no credit rating (continued)			
£449.345 Road Management Services 3,642% 2028	684	0,02	
£17.200.000 Segro 5,625% 2020	19.846	0,44	
£12.000.000 Segro 6,75% 2021	14.849	0,33	
£15.000.000 Segro Var. Rate 2019 (6%)	16.976	0,38	
£2.000.000 Segro Var. Rate 2022 (7%)	2.519	0,06	
£4.750.000 South West Water Finance 5,875% 2040	6.773	0,15	
£18.200.000 Suez Environnement 5,375% 2030	23.540	0,52	
£1.982.541 Summit Finance (Law) 6,484% 2028	2.350	0,05	
£700.000 Tesco 4% IL 2016	1.088	0,02	
£450.000 THFC Social Housing 8,75% 2021	592	0,01	
£1.179.198 THRONES Mortgages FRN 2044 A	1.171	0,03	
£250.000 Washington Mutual Bank 5,5% 2019 ^[a]	0	0,00	
£2.000.000 Westfield Stratford FRN 2024	1.986	0,04	
£1.900.000 Witan Investment Trust 6,125% 2025	2.441	0,05	
£13.000.000 Wm Morrison Supermarkets 3,5% 2026	12.401	0,28	
£5.000.000 Wm Morrison Supermarkets 4,625% 2023	5.293	0,12	
£5.000.000 Wm Morrison Supermarkets 4,75% 2029	5.101	0,11	
£2.525.000 Yorkshire Building Society 3,5% 2026	2.612	0,06	
£1.993.000 Yorkshire Building Society Var. Rate 2024 (4,125%)	1.956	0,04	
Credit default swaps			
€5.000.000 Centrica Dec 2020	(12)	0,00	0,02
€10.000.000 Imperial Tobacco Jun 2018	(93)	0,00	
€10.000.000 Marks & Spencer Jun 2020	136	0,00	
Forward currency contracts			
€9.554.503 Bought for £7.496.025 (expires 27.07.16)	405	0,01	
€(42.291.337) Sold for £33.521.105 (expires 27.07.16)	(1.449)	(0,03)	
€(28.405.159) Sold for £22.419.244 (expires 24.08.16)	(1.087)	(0,02)	
€(11.301.215) Sold for £8.987.264 (expires 21.09.16)	(373)	(0,01)	
\$32.920.150 Bought for £23.280.181 (expires 27.07.16)	1.123	0,03	
\$(159.025.029) Sold for £108.959.580 (expires 27.07.16)	(8.924)	(0,20)	
\$(353.078.789) Sold for £244.768.412 (expires 24.08.16)	(16.918)	(0,38)	
\$(252.427.698) Sold for £177.658.984 (expires 21.09.16)	(9.385)	(0,21)	
Interest rate futures contracts			
(2.500) 10 Year US Treasury Note Sep 16	(5.687)	(0,13)	0,07
1.000 UK Long Gilt Sep 16	3.921	0,09	
(1.450) US Long Bond Sep 16	(9.256)	(0,21)	
Portfolio of investments	4.341.589	96,69	97,73
'AAA' rated money market funds ^[b]			
69.790.000 Northern Trust Global Fund - Sterling	69.790	1,55	1,28
Total portfolio (notes 2c & 2d on page 6)	4.411.379	98,24	99,01
Net other assets / (liabilities)	78.810	1,76	0,99
Net assets attributable to shareholders	4.490.189	100,00	100,00

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

^[a] Defaulted bond.

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

M&G Corporate Bond Fund

Financial highlights

Fund performance

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

The following charts and tables 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 (3), 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			
	2016	2015	2014
as at 30 June	£'000	£'000	£'000
Fund net asset value (NAV)	4,490,189	4,807,312	5,238,116

Share class performance since launch

To give an indication of how the fund has performed since launch, the graph 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 2 July 2007. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

To give an indication of the long-term 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 01.07.15 % [a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	-8,3	+7,3	+8,7	+4,8 [c]
Class 'C'	-7,6	+8,1	+9,5	+5,2 [c]
Sterling [d]				
Class 'A'	+7,8	+6,1	+6,6	+6,5 [e]
Class 'I'	+8,3	+6,5	+7,0	+7,6 [f]
Class 'R'	+8,1	+6,3	n/a	+5,3 [g]
Class 'X'	+7,6	+5,9	+6,3	+6,4 [h]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 29 November 2002, the launch date of the share class.

[d] Price to price with net income reinvested.

[e] 15 April 1994. All performance data prior to 11 March 2002 (the launch date of the share class) has been calculated by reference to a conversion factor due to a change of the nominated share class.

[f] 2 July 2007, the launch date of the share class.

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

[h] 15 April 1994, the end of the initial offer period of the predecessor unit trust.

M&G Corporate Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,85	0,70	0,67	0,74

^[a] Average of first three columns.

M&G 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' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	2,052,07	1,743,67	1,526,26
Return before operating charges and after direct portfolio transaction costs	(139,21)	335,58	240,33
Operating charges	(28,15)	(27,18)	(22,92)
Return after operating charges	(167,36)	308,40	217,41
Closing NAV	1,884,71	2,052,07	1,743,67
Retained distributions	54,91	56,69	52,03
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,03	0,02	0,04
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,03	0,02	0,04
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	-8,16	+17,69	+14,24
Distribution yield	2,61	2,83	3,01
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	28.653	37.355	35.507
Closing NAV percentage of total fund NAV (%)	0,64	0,78	0,68
Number of shares	1.839.784	2.558.664	2.541.297
Highest share price (Euro ¢)	2.130,28	2.125,57	1.748,59
Lowest share price (Euro ¢)	1.862,69	1.742,10	1.510,95

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	2.147,91	1.811,19	1.573,05
Return before operating charges and after direct portfolio transaction costs	(146,90)	349,94	249,17
Operating charges	(13,64)	(13,22)	(11,03)
Return after operating charges	(160,54)	336,72	238,14
Closing NAV	1.987,37	2.147,91	1.811,19
Retained distributions	72,75	74,33	66,47
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,04	0,02	0,04
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,04	0,02	0,04
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,67
Return after operating charges	-7,47	+18,59	+15,14
Distribution yield	3,36	3,58	3,73
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	3.551	6.262	7.727
Closing NAV percentage of total fund NAV (%)	0,08	0,13	0,15
Number of shares	216.258	409.799	532.391
Highest share price (Euro ¢)	2.236,12	2.221,49	1.816,56
Lowest share price (Euro ¢)	1.959,09	1.809,98	1.558,97

Sterling Class 'A' Income share performance

The share class was launched on 11 March 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	39,05	38,47	37,19
Return before operating charges and after direct portfolio transaction costs	3,13	2,30	3,02
Operating charges	(0,46)	(0,46)	(0,44)
Return after operating charges	2,67	1,84	2,58
Distributions	(1,22)	(1,26)	(1,30)
Closing NAV	40,50	39,05	38,47
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+6,84	+4,78	+6,94
Distribution yield	2,86	3,08	3,26
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	348.247	552.389	759.298
Closing NAV percentage of total fund NAV (%)	7,76	11,49	14,50
Number of shares	859.822.404	1.414.499.083	1.973.635.994
Highest share price (UK p)	40,74	41,67	38,90
Lowest share price (UK p)	38,64	38,24	36,97

M&G Corporate Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 11 March 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	61,78	59,35	55,82
Return before operating charges and after direct portfolio transaction costs	5,01	3,54	4,60
Operating charges	(0,73)	(0,72)	(0,67)
Return after operating charges	4,28	2,82	3,93
Distributions	(0,39)	(0,39)	(0,40)
Closing NAV	65,67	61,78	59,35
Retained distributions	1,56	1,56	1,58
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+6,93	+4,75	+7,04
Distribution yield	2,86	3,08	3,26
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	508.135	766.703	1.006.387
Closing NAV percentage of total fund NAV (%)	11,32	15,95	19,21
Number of shares	773.805.749	1.240.996.096	1.695.717.546
Highest share price (UK p)	65,67	65,14	59,60
Lowest share price (UK p)	61,38	58,99	55,50

Sterling Class 'I' Income share performance

The share class was launched on 2 July 2007.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	39,07	38,49	37,20
Return before operating charges and after direct portfolio transaction costs	3,13	2,30	3,03
Operating charges	(0,26)	(0,26)	(0,25)
Return after operating charges	2,87	2,04	2,78
Distributions	(1,42)	(1,46)	(1,49)
Closing NAV	40,52	39,07	38,49
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+7,35	+5,30	+7,47
Distribution yield	3,36	3,58	3,75
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	2.429.683	2.358.071	2.275.887
Closing NAV percentage of total fund NAV (%)	54,11	49,05	43,45
Number of shares	5.996.199.649	6.035.813.975	5.913.279.275
Highest share price (UK p)	40,80	41,71	38,94
Lowest share price (UK p)	38,67	38,26	37,01

Sterling Class 'I' Accumulation share performance

The share class was launched on 2 July 2007.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	63,81	61,05	57,18
Return before operating charges and after direct portfolio transaction costs	5,18	3,65	4,73
Operating charges	(0,43)	(0,42)	(0,40)
Return after operating charges	4,75	3,23	4,33
Distributions	(0,47)	(0,47)	(0,46)
Closing NAV	68,09	63,81	61,05
Retained distributions	1,87	1,87	1,85
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+7,44	+5,29	+7,57
Distribution yield	3,36	3,58	3,75
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	654.547	502.975	528.082
Closing NAV percentage of total fund NAV (%)	14,58	10,46	10,08
Number of shares	961.297.408	788.288.187	864.986.000
Highest share price (UK p)	68,09	67,16	61,29
Lowest share price (UK p)	63,39	60,69	56,90

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	104,41	102,86	99,41
Return before operating charges and after direct portfolio transaction costs	8,36	6,15	8,11
Operating charges	(0,96)	(0,97)	(0,93)
Return after operating charges	7,40	5,18	7,18
Distributions	(3,52)	(3,63)	(3,73)
Closing NAV	108,29	104,41	102,86
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,91	0,91	0,91
Return after operating charges	+7,09	+5,04	+7,22
Distribution yield	3,11	3,33	3,51
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	4.171	3.633	2.977
Closing NAV percentage of total fund NAV (%)	0,09	0,08	0,06
Number of shares	3.851.873	3.479.537	2.894.000
Highest share price (UK p)	108,98	111,44	104,04
Lowest share price (UK p)	103,33	102,23	98,86

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Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	113,54	108,85	102,00
Return before operating charges and after direct portfolio transaction costs	9,22	6,52	8,60
Operating charges	(1,06)	(1,05)	(0,97)
Return after operating charges	8,16	5,47	7,63
Distributions	(0,78)	(0,78)	(0,78)
Closing NAV	120,92	113,54	108,85
Retained distributions	3,10	3,10	3,10
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,91	0,91	0,91
Return after operating charges	+7,19	+5,03	+7,48
Distribution yield	3,11	3,33	3,51
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	6.220	2.686	1.149
Closing NAV percentage of total fund NAV (%)	0,14	0,06	0,02
Number of shares	5.143.782	2.365.517	1.055.500
Highest share price (UK p)	120,92	119,60	109,29
Lowest share price (UK p)	112,80	108,20	101,59

Sterling Class 'X' Income share performance

The share class was launched on 15 April 1994.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	39,06	38,48	37,20
Return before operating charges and after direct portfolio transaction costs	3,13	2,30	3,02
Operating charges	(0,56)	(0,56)	(0,54)
Return after operating charges	2,57	1,74	2,48
Distributions	(1,12)	(1,16)	(1,20)
Closing NAV	40,51	39,06	38,48
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	+6,58	+4,52	+6,67
Distribution yield	2,61	2,83	3,01
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	479.592	544.995	583.517
Closing NAV percentage of total fund NAV (%)	10,68	11,33	11,13
Number of shares	1.183.823.837	1.395.225.350	1.516.379.907
Highest share price (UK p)	40,73	41,67	38,89
Lowest share price (UK p)	38,64	38,24	36,96

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 April 1994.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	60,14	57,89	54,56
Return before operating charges and after direct portfolio transaction costs	4,86	3,45	4,48
Operating charges	(0,86)	(0,85)	(0,79)
Return after operating charges	4,00	2,60	3,69
Distributions	(0,35)	(0,35)	(0,36)
Closing NAV	63,79	60,14	57,89
Retained distributions	1,39	1,40	1,43
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	+6,65	+4,49	+6,76
Distribution yield	2,61	2,83	3,01
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	27.390	32.243	37.585
Closing NAV percentage of total fund NAV (%)	0,60	0,67	0,72
Number of shares	42.936.027	53.614.694	64.929.357
Highest share price (UK p)	63,79	63,45	58,14
Lowest share price (UK p)	59,75	57,54	54,22

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

[b] In respect of direct portfolio transaction costs.

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Statement of total return

for the year to 30 June	Note	2016		2015	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	2		163.126		84.466
Revenue	4	195.633		223.629	
Expenses	5	(39.953)		(47.027) ^[a]	
Net revenue / (expense) before taxation		155.680		176.602	
Taxation	6	(22)		(3)	
Net revenue / (expense) after taxation			155.658		176.599
Total return before distributions			318.784		261.065
Distributions	7		(155.645)		(176.609)
Change in net assets attributable to shareholders from investment activities			163.139		84.456

Statement of change in net assets attributable to shareholders

for the year to 30 June		2016		2015	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders					
			4.807.312		5.238.116
Amounts received on issue of shares	592.941		650.349 ^[a]		
Amounts paid on cancellation of shares	(1.109.504)		(1.208.041) ^[a]		
			(516.563)		(557.692)
Dilution adjustments			2.946		3.441 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)			163.139		84.456
Retained distributions on Accumulation shares			33.336		38.973
Unclaimed distributions			19		18
Closing net assets attributable to shareholders			4.490.189		4.807.312

Balance sheet

as at 30 June	Note	2016	2015
		£'000	£'000
Assets			
Fixed assets			
Investments		4.464.563	4.760.745
Current assets			
Debtors	8	96.289	91.459
Cash and bank balances	9	30.843	10.632
Total assets		4.591.695	4.862.836
Liabilities			
Investment liabilities		(53.184)	(967)
Creditors			
Distribution payable		(34.792)	(38.026) ^[a]
Other creditors	10	(13.530)	(16.531) ^[a]
Total liabilities		(101.506)	(55.524)
Net assets attributable to shareholders		4.490.189	4.807.312

^[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling £2.946.000 (2015: £3.441.000) have been reclassified from 'Amounts received on issue of shares' of £200.000 (2015: £154.000) and 'Amounts paid on cancellation of shares' of £2.746.000 (2015: £3.287.000).

Interest payable of £19.000 (2015: £60.000) has been reclassified from 'Distributions' into 'Expenses'.

Income tax payable of £13.447.000 (2015: £14.613.000) has been reclassified from 'Other creditors' into 'Distribution payable'.

2 Net capital gains / (losses)

for the year to 30 June	2016	2015
	£'000	£'000
Non-derivative securities	271.658	80.208
Derivative contracts	(109.574)	21.477
Currency gains / (losses)	1.059	(17.201)
Transaction charges	(17)	(18)
Net capital gains / (losses)	163.126	84.466

3 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 21.

for the year to 30 June	2016	2015
	£'000	£'000
a) Purchases		
Debt securities ^[a]	1.160.857	1.473.712
Total purchases after transaction costs	1.160.857	1.473.712
b) Sales		
Debt securities ^[a]	1.709.548	1.972.332
Total sales after transaction costs	1.709.548	1.972.332
c) Direct portfolio transaction costs		
There were no direct portfolio transaction costs		
d) Indirect portfolio transaction costs		
Portfolio dealing spread ^[b]	0,85	0,70

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

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

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4 Revenue

for the year to 30 June	2016 £'000	2015 £'000
Bank interest	45	39
Derivative revenue	(5,012)	(1,354)
Interest distributions	342	301
Interest on debt securities	200,258	224,643
Total revenue	195,633	223,629

5 Expenses

for the year to 30 June	2016 £'000	2015 £'000
Payable to the ACD or associate		
Annual management charge	32,657	38,763
Administration charge	6,915	7,784
	39,572	46,547
Payable to the Depository or associate		
Depository's charge (including VAT)	162	180
Other expenses		
Audit fee (including VAT)	10	8
Interest payable	19	60
Regulatory fees	0	3
Safe custody charge	190	227
Tax fees (including VAT) ^[a]	0	2
	219	300
Total expenses	39,953	47,027

^[a] Fees of £nil (2015: £2,000) paid to overseas firms affiliated with Ernst & Young LLP.

6 Taxation

for the year to 30 June	2016 £'000	2015 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	22	8
Prior year adjustment	0	(5)
Deferred tax (note 6c)	0	0
Total taxation	22	3
b) Factors affecting taxation charge for the year		
Net revenue before taxation	155,680	176,602
Corporation tax at 20%	31,136	35,320
Effects of:		
Interest distributions	(31,136)	(35,320)
Withholding tax	22	8
Prior year adjustment	0	(5)
Total tax charge (note 6a)	22	3
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	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 (2015: 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 where applicable.

7 Distributions

for the year to 30 June	2016		2015	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Interest distributions				
First interim	23,341	8,921	26,613	10,880
Second interim	22,110	8,300	25,942	10,075
Third interim	22,771	8,282	24,267	9,236
Final	21,345	7,833	23,413	8,782
Total net distributions		122,903		139,208
Income tax deducted at source		30,942		34,912
Interest distributions		153,845		174,120
Income deducted on cancellation of shares		3,991		4,698
Income received on issue of shares		(2,191)		(2,209)
Distributions		155,645		176,609
Net revenue per statement of total return		155,658		176,599
Undistributed income brought forward		9		19
Undistributed income carried forward		(22)		(9)
Distributions		155,645		176,609

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

8 Debtors

as at 30 June	2016 £'000	2015 £'000
Amounts receivable on issues of shares	3,326	1,964
Currency deals outstanding	343	917
Debt security interest receivable	77,639	83,379
Derivative revenue receivable	0	10
Distributions receivable	31	25
Sales awaiting settlement	14,950	5,164
Total debtors	96,289	91,459

9 Cash and bank balances

as at 30 June	2016 £'000	2015 £'000
Amounts held at futures clearing houses and brokers	24,359	9,898
Cash held as bank balances	6,484	734
Total cash and bank balances	30,843	10,632

10 Other creditors

as at 30 June	2016 £'000	2015 £'000
ACD's annual management charge payable	843	779
Administration charge payable	185	159
Amounts payable on cancellation of shares	3,537	7,884
Currency deals outstanding	342	916
Derivative expense payable	482	300
Expenses payable	82	53
Purchases awaiting settlement	8,059	6,440
Total other creditors	13,530	16,531

11 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: same).

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12 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 13 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Euro				
Class 'A' Accumulation (Gross)	2,558,664	908,149	(1,627,029)	1,839,784
Class 'C' Accumulation (Gross)	409,799	2,970,827	(3,164,368)	216,258
Sterling				
Class 'A' Income (Net)	1,414,499,083	14,319,404	(568,996,083)	859,822,404
Class 'A' Accumulation (Net)	1,240,996,096	7,645,396	(474,835,743)	773,805,749
Class 'I' Income (Net)	6,035,813,975	815,228,756	(854,843,082)	5,996,199,649
Class 'I' Accumulation (Net)	788,288,187	289,698,376	(116,689,155)	961,297,408
Class 'R' Income (Net)	3,479,537	1,128,011	(755,675)	3,851,873
Class 'R' Accumulation (Net)	2,365,517	3,691,681	(913,416)	5,143,782
Class 'X' Income (Net)	1,395,225,350	17,206,616	(228,608,129)	1,183,823,837
Class 'X' Accumulation (Net)	53,614,694	3,180,098	(13,858,765)	42,936,027

13 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'	3,25	n/a	1,25
Class 'C'	1,25	n/a	0,50
Sterling			
Class 'A'	3,00	n/a	1,00
Class 'I'	1,00	n/a	0,50
Class 'R'	1,00	n/a	0,75
Class 'X'	nil	4,50 ^[a]	1,25

^[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

14 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 7. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 8 and 10 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 5. Amounts due at the year end to the ACD in respect of the ACD's annual management charge and administration charge are disclosed in note 10.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 20,18% (2015: 19,64%) of the fund's shares.

15 Events after the balance sheet date

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

16 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.

Valuation technique	Assets 2016	Liabilities 2016	Assets 2015	Liabilities 2015
	£'000	£'000	£'000	£'000
Level 1	423,589	(14,943)	381,407	(698)
Level 2	4,040,974	(38,241)	4,379,338	(269)
Level 3	0	0	0	0
	4,464,563	(53,184)	4,760,745	(967)

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 12 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

17 Risk management policies

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

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18 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 30 June 2016 was 11% (2015: 11%).

The lowest, highest and average utilisation of the VaR limit calculated during the financial years ended 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 %	2015 %
Lowest	2.63	2.29
Highest	3.75	5.51
Average	3.09	2.86

19 Credit risk

as at 30 June	2016 £'000	2015 £'000
Investment grade securities	3,727,081	3,974,557
Below investment grade securities	147,066	162,821
Unrated securities	515,041	538,061
Other investments	22,191	84,339
Total	4,411,379	4,759,778

20 Counterparty exposure

as at 30 June 2016	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	(11,022)	(24,359)	(35,381)
BNP Paribas	0	(3,308)	0	0	(3,308)
Citigroup	56	(3,312)	0	0	(3,256)
Credit Suisse	(93)	0	0	0	(93)
HSBC	0	(941)	0	0	(941)
JPMorgan	68	(2,100)	0	0	(2,032)
National Australia Bank	0	(4,946)	0	0	(4,946)
Royal Bank of Scotland	0	(15,175)	0	0	(15,175)
Standard Chartered Bank	0	(2,126)	0	0	(2,126)
UBS	0	(4,700)	0	0	(4,700)
Total	31	(36,608)	(11,022)	(24,359)	(71,958)

as at 30 June 2015	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	3,703	(9,898)	(6,195)
Barclays Bank	0	888	0	0	888
BNP Paribas	0	405	0	0	405
Citigroup	(49)	86	0	0	37
Credit Suisse	(114)	2,590	0	0	2,476
Deutsche Bank	0	173	0	0	173
Goldman Sachs	0	852	0	0	852
HSBC	0	1,444	0	0	1,444
JPMorgan	710	3,281	0	0	3,991
National Australia Bank	0	3,500	0	0	3,500
Royal Bank of Scotland	0	2,849	0	0	2,849
UBS	0	2,641	0	0	2,641
Total	547	18,709	3,703	(9,898)	13,061

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.

21 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 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 £'000	2016 %	2015 £'000	2015 %
Lowest	5,386,282	118	2,343,681	44
Highest	6,182,367	131	7,036,234	133
Average	5,705,155	124	6,075,374	117

22 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	01.07.15	30.09.15	01.10.15	30.11.15
Second interim	01.10.15	31.12.15	04.01.16	29.02.16
Third interim	01.01.16	31.03.16	01.04.16	31.05.16
Final	01.04.16	30.06.16	01.07.16	31.08.16

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						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equal- isation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
First interim	14,5889	-	14,5889	-	14,5889	14,1807
Second interim	14,0531	-	14,0531	-	14,0531	14,0226
Third interim	13,7523	-	13,7523	-	13,7523	14,1827
Final	12,5166	-	12,5166	-	12,5166	14,3059
Group 2						
First interim	8,9226	-	8,9226	5,6663	14,5889	14,1807
Second interim	5,8160	-	5,8160	8,2371	14,0531	14,0226
Third interim	4,1444	-	4,1444	9,6079	13,7523	14,1827
Final	5,0459	-	5,0459	7,4707	12,5166	14,3059

M&G Corporate Bond Fund

Financial statements and notes

Notes to the financial statements

22 Interest distribution tables (continued)

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
First interim	19,0692	-	19,0692	-	19,0692	18,3301
Second interim	18,5792	-	18,5792	-	18,5792	18,2632
Third interim	18,1632	-	18,1632	-	18,1632	18,7810
Final	16,9387	-	16,9387	-	16,9387	18,9573
Group 2						
First interim	11,1358	-	11,1358	7,9334	19,0692	18,3301
Second interim	8,3818	-	8,3818	10,1974	18,5792	18,2632
Third interim	9,6638	-	9,6638	8,4994	18,1632	18,7810
Final	8,6505	-	8,6505	8,2882	16,9387	18,9573

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
First interim	0,3125	0,0625	0,2500	-	0,2500	0,2632
Second interim	0,2985	0,0597	0,2388	-	0,2388	0,2584
Third interim	0,3115	0,0623	0,2492	-	0,2492	0,2432
Final	0,2965	0,0593	0,2372	-	0,2372	0,2400
Group 2						
First interim	0,1394	0,0279	0,1115	0,1385	0,2500	0,2632
Second interim	0,1724	0,0345	0,1379	0,1009	0,2388	0,2584
Third interim	0,1383	0,0277	0,1106	0,1386	0,2492	0,2432
Final	0,1286	0,0257	0,1029	0,1343	0,2372	0,2400

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
First interim	0,4950	0,0990	0,3960	-	0,3960	0,4056
Second interim	0,4745	0,0949	0,3796	-	0,3796	0,4012
Third interim	0,4990	0,0998	0,3992	-	0,3992	0,3800
Final	0,4780	0,0956	0,3824	-	0,3824	0,3776
Group 2						
First interim	0,1841	0,0368	0,1473	0,2487	0,3960	0,4056
Second interim	0,2134	0,0427	0,1707	0,2089	0,3796	0,4012
Third interim	0,2225	0,0445	0,1780	0,2212	0,3992	0,3800
Final	0,2026	0,0405	0,1621	0,2203	0,3824	0,3776

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
First interim	0,3625	0,0725	0,2900	-	0,2900	0,3028
Second interim	0,3465	0,0693	0,2772	-	0,2772	0,2984
Third interim	0,3610	0,0722	0,2888	-	0,2888	0,2840
Final	0,3485	0,0697	0,2788	-	0,2788	0,2804
Group 2						
First interim	0,2158	0,0432	0,1726	0,1174	0,2900	0,3028
Second interim	0,1825	0,0365	0,1460	0,1312	0,2772	0,2984
Third interim	0,1050	0,0210	0,0840	0,2048	0,2888	0,2840
Final	0,1585	0,0317	0,1268	0,1520	0,2788	0,2804

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
First interim	0,5930	0,1186	0,4744	-	0,4744	0,4800
Second interim	0,5680	0,1136	0,4544	-	0,4544	0,4776
Third interim	0,5970	0,1194	0,4776	-	0,4776	0,4560
Final	0,5810	0,1162	0,4648	-	0,4648	0,4544
Group 2						
First interim	0,2983	0,0597	0,2386	0,2358	0,4744	0,4800
Second interim	0,2905	0,0581	0,2324	0,2220	0,4544	0,4776
Third interim	0,2388	0,0478	0,1910	0,2866	0,4776	0,4560
Final	0,2174	0,0435	0,1739	0,2909	0,4648	0,4544

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
First interim	0,9035	0,1807	0,7228	-	0,7228	0,7556
Second interim	0,8615	0,1723	0,6892	-	0,6892	0,7444
Third interim	0,8995	0,1799	0,7196	-	0,7196	0,7040
Final	0,8595	0,1719	0,6876	-	0,6876	0,6960
Group 2						
First interim	0,4270	0,0854	0,3416	0,3812	0,7228	0,7556
Second interim	0,5178	0,1036	0,4142	0,2750	0,6892	0,7444
Third interim	0,2584	0,0517	0,2067	0,5129	0,7196	0,7040
Final	0,2371	0,0474	0,1897	0,4979	0,6876	0,6960

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
First interim	0,9815	0,1963	0,7852	-	0,7852	0,8000
Second interim	0,9450	0,1890	0,7560	-	0,7560	0,7940
Third interim	0,9910	0,1982	0,7928	-	0,7928	0,7560
Final	0,9575	0,1915	0,7660	-	0,7660	0,7516
Group 2						
First interim	0,4459	0,0892	0,3567	0,4285	0,7852	0,8000
Second interim	0,4119	0,0824	0,3295	0,4265	0,7560	0,7940
Third interim	0,3704	0,0741	0,2963	0,4965	0,7928	0,7560
Final	0,6051	0,1210	0,4841	0,2819	0,7660	0,7516

M&G Corporate Bond Fund

Financial statements and notes

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22 Interest distribution tables (continued)

Sterling Class 'X' Income shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	2016	2015
Group 1						
First interim	0,2880	0,0576	0,2304	-	0,2304	0,2432
Second interim	0,2745	0,0549	0,2196	-	0,2196	0,2384
Third interim	0,2875	0,0575	0,2300	-	0,2300	0,2232
Final	0,2705	0,0541	0,2164	-	0,2164	0,2200
Group 2						
First interim	0,1074	0,0215	0,0859	0,1445	0,2304	0,2432
Second interim	0,1124	0,0225	0,0899	0,1297	0,2196	0,2384
Third interim	0,0996	0,0199	0,0797	0,1503	0,2300	0,2232
Final	0,0858	0,0172	0,0686	0,1478	0,2164	0,2200

Sterling Class 'X' Accumulation shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	2016	2015
Group 1						
First interim	0,4440	0,0888	0,3552	-	0,3552	0,3660
Second interim	0,4240	0,0848	0,3392	-	0,3392	0,3608
Third interim	0,4475	0,0895	0,3580	-	0,3580	0,3396
Final	0,4245	0,0849	0,3396	-	0,3396	0,3364
Group 2						
First interim	0,2085	0,0417	0,1668	0,1884	0,3552	0,3660
Second interim	0,2801	0,0560	0,2241	0,1151	0,3392	0,3608
Third interim	0,1859	0,0372	0,1487	0,2093	0,3580	0,3396
Final	0,1699	0,0340	0,1359	0,2037	0,3396	0,3364

M&G Dividend Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests mainly in a range of UK equities with the aim of achieving a steadily increasing income stream. The Fund will target a yield higher than that of the FTSE All-Share Index. Subject to this, the aim will be to maximise total return (the combination of income and growth of capital).

Investment approach

The M&G Dividend Fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund manager seeks to invest in companies with excellent capital discipline and long-term dividend growth potential. The fund manager believes rising dividends create upward pressure on the value of shares. Dividend yield is not the primary consideration for stock selection.

The fund manager aims to create a diversified portfolio with exposure to a broad range of sectors. He selects stocks with different drivers of dividend growth to construct a portfolio that has the potential to cope in a variety of market conditions. The fund invests 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's focus is on shares of companies that have the potential to grow their dividends over the long term. Income distributions from the fund's holdings, however, are not guaranteed and may vary. Diversification 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 30 June 2015 to 25 November 2015 the risk number was 6.

Investment review

As at 1 July 2016, for the year ended 30 June 2016

Distribution summary

Over the 12-month review period, the fund distributed income of 2,8429 pence per Sterling Class 'A' (Income) share. This represents an increase of 4.2% on the previous year. The payout represented a yield (distributed income as a percentage of the share price) of 4.86% versus a yield of 3.61% for the FTSE All-Share Index, a comparative index.

We are pleased that fund distributions have grown over the past year, in line with the fund's objective and by more than the rate of UK inflation, which was 1.6% during the same period, as defined by the Retail Prices Index. In our last annual report, we expressed our concern about the prospects for dividend growth in the year, given the headwinds faced by commodity-related companies and the financial sector. Our caution proved to be well placed as the mining companies cut their dividends in response to falling commodity prices, followed more recently by Barclays, which warned of lower dividends in the years to come against a backdrop of mounting regulatory pressure across the banking industry. (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.)

This concern and our hunt for growth in dividends led us to make a conscious decision earlier in the year to increase the fund's exposure to overseas earnings. The purchases of BAE Systems, BP and GlaxoSmithKline served the fund well as these US dollar earners made a positive contribution to performance and the fund's distribution. The weakness of sterling also provided a boost to dividends paid in currencies other than sterling. BP, for example, raised its dividend for 2015 by 3% in US dollars, equivalent to 11% growth in sterling. The fund also has a number of European holdings which delivered meaningful dividend growth before the benefit of currency movements. Kone, a recent purchase, and SES, one of the top ten holdings, raised their dividends by 17% and 10% respectively in euros. We believe that the competitive advantage of these companies will sustain dividend growth in the future.

Above all, the increase in fund distributions has been achieved through the consistent application of our investment approach, which focuses on companies with the potential to increase dividends over the long term (typically three to five years) through prudent and disciplined capital allocation. The majority of holdings delivered underlying dividend growth of 5% to 15%, in line with previous years, led by some of the top holdings, including RELX (14%) and BT Group (13%). That said, not all of our holdings delivered growth. Tate & Lyle and Phoenix Group were among a few companies in the fund that held their dividends flat, while Rio Tinto and Golar LNG cut their payments as commodity prices tumbled.

Despite these setbacks, the fund was able to meet its distribution commitment. In addition to growth in regular dividends, special dividends contributed to the fund's income. Insurance companies dominated the list of those paying special dividends as Direct Line, Hiscox and Lancashire Holding accounted for three of the seven one-off payments received during the year. We applaud the discipline of returning excess cash to shareholders if companies cannot invest that cash profitably.

M&G Dividend Fund

Authorised Corporate Director's Report

Investment review

Distribution summary (continued)

We have also maintained a yield above that of the FTSE All-Share Index. There has been much discussion about the difficulty faced by income fund managers in generating a high yield in the current environment. It is true that there are challenges presented by the concentration of yield in the UK market and the potential risks associated with individual high-yielding stocks, but we believe from our thorough company analysis that the fund's higher yield has been achieved without taking excessive risk or making a significant compromise on growth. We are very aware that the combination of a high yield and rising distribution is important to our investors and remain focused on meeting this objective.

The fund's distribution and distribution yield are shown in the 'Specific share class performance' tables in this report. The distribution is subject to changes in the market environment and there is no guarantee that the fund will increase the distribution every year. In keeping with prior years, special dividends formed a key component of the fund's income and these dividends should be seen as special and not necessarily recurring.

Performance against objective

Between 1 July 2015 (the start of the review period) and 1 July 2016, the fund's total return (the combination of income and growth of capital) was broadly flat across its share classes. However, the fund's returns in all share classes lagged the FTSE All-Share Index, which returned 2.1% over the 12-month period. The underperformance was exaggerated by timing differences between the fund's midday pricing in London and the pricing of the FTSE All-Share Index which takes place at the end of the trading day. This accounted for about 0.8% of the underperformance.

While the fund has achieved its income objective in terms of growing distributions and delivering a dividend yield above the market average, it has not met its aim to achieve capital growth over the 12-month review period. Over a longer period of five years, the fund has achieved all aspects of its objective.^[a]

Investment performance

The 12 months under review have been difficult for the fund. After holding our own in a falling market during the first six months of the review period, the fund faced a more challenging second half, which has led to underperformance overall. The combination of stock-specific issues and the fund's relatively small exposure to the commodity-related areas of oil & gas and mining, which rallied strongly in the first six months of 2016, took their toll.

Golar LNG, which owns and operates a fleet of liquefied natural gas tankers, was the biggest detractor over 12 months as the stock tracked the oil price lower during the first half, before negotiations with Schlumberger to co-operate on a development project collapsed in the second half. The dividend cut was disappointing, but understandable in the low gas price environment, and we continue to believe that the company will capitalise on its competitive infrastructure to deliver gas. We remain holders of the stock and look forward to the commencement of a key project in 2017.

Not owning shares in Royal Dutch Shell was another significant drag on performance. The oil major accounts for almost 8% of the FTSE All-Share Index and returned more than 20% during the review period. We are sceptical about the long-term sustainability of the dividend and remain comfortable longer term with having no exposure.

Outside oil & gas, the share price of Essentra declined after the international supplier of plastic, fibre and foam products revised down expectations for 2016. We continue to believe in the company's ability to deliver profitable growth over the long term and we added to the holding on weakness. SES, the satellite operator listed in France and Luxembourg, underperformed following the announcement of a capital raising programme to finance an acquisition. We are supportive of the company's buy-in of their joint venture O3B as it provides excellent opportunities for growth and profits in cruise, data and airline markets.

Elsewhere, the pressure on financials over the period had a knock-on effect on our own holdings, with Nordea and Aviva prominent among the detractors. On fundamental grounds, both stocks remain core holdings. Amlin, the insurer, was the outlier in the sector after the shares rallied more than 30% following the announcement of a takeover offer in cash.

Turning to the other positives, the best performers during the review period were dominated by companies benefiting from the market's preference for safety. Our tobacco holdings, Imperial Brands and British American Tobacco, returned more than 30% over 12 months as did Tate & Lyle in consumer goods. GlaxoSmithKline in healthcare was another strong performer. The holding in RELX, the publisher, added value as well given its 'quality' characteristics.

It was also pleasing to see the solid performance of Covestro, the German chemicals business spun off by Bayer, which has made an encouraging start as a standalone company. We bought the stock in October, since when the stock has returned more than 50% in euros and more than 70% in sterling. BAE Systems, another new holding during the review period, has seen its share price rise more than 20% since its initial purchase in September, helped by an improvement in the defence cycle. All of these stocks have significant overseas earnings and benefited from the fall in the value of sterling.

Investment activities

Covestro and BAE Systems were among 14 new purchases in the past 12 months, while 15 stocks were sold. Investment decisions are based on the detailed analysis of company fundamentals and the thorough assessment of valuation to determine whether a stock merits its place in the fund. Dialogue with senior management is integral to our approach and we aim to make informed judgments through human engagement. 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 investor's' money entails regular company meetings and stringent examination to identify the best opportunities available and generate excellent long-term returns for our investors.

As an outcome of our process, we have investments in 46 companies and the level of activity in the fund has been consistent with our timeframe of three to five years. Companies with 'quality' characteristics featured highly among the new holdings, AstraZeneca in healthcare being the most obvious. There were others with more economic sensitivity such as WPP and Kone, both of which have added value since they joined the fund.

M&G Dividend Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

We have also added selectively to more domestically focused companies with the purchases of Saga and McCarthy & Stone. The uncertainties in the run-up to the UK's referendum on membership of the European Union created buying opportunities for domestic businesses with potential for long-term growth as economic concerns outweighed the prospects of individual companies. Both Saga, the provider of insurance products and travel services, and McCarthy & Stone, a specialist in retirement homes, are beneficiaries of demographic trends which can support long-term growth in the business, which in turn should be favourable for long-term dividend growth. We continue to have no exposure to domestic banks, where we believe the operating environment and regulatory concerns provide significant downside risk.

Looking at the sales, holdings such as WH Smith and RPC exited the fund after a period of strong performance. WH Smith returned more than 60% since its initial purchase in December 2013, while RPC returned more than 80% since we built up a full holding in July 2013. Others such as Capita provided a source of cash for better ideas, while the likes of BBA Aviation and Nostrum Oil & Gas were legacy holdings which were not fulfilling our initial thesis.

Investment activity, however, is not confined to the buying and selling of shares in the stockmarket. Providing financing for companies seeking capital is an important role of the fund management industry, particularly at a time when bank lending has been insufficient to meet corporate needs. The stewardship of our investors' money entails providing financial support for growing businesses, which in turn will contribute to the broader economy, and acting as owners of businesses to participate in their development. To this end, we have invested more than £50 million in financing activities during the past 12 months, spread across large, medium-sized and small companies. As with any investment, being selective is paramount, but we believe there are excellent growth opportunities for both companies and investors to share in long-term success.

Outlook

Brexit has had wide repercussions for financial markets and the uncertainties are likely to persist, but our focus on company fundamentals and valuation remains unchanged. The UK continues to offer excellent opportunities for stockpickers and we believe that the potential for investors in the stockmarket is best captured by a concentrated portfolio of best ideas. We remain committed to our pursuit of a dividend growth strategy, and through the application of our conviction-based approach, we are ready to take advantage of new opportunities. We are also mindful of potential risks. Even before the referendum, we were of the view that the environment for dividends would remain challenging. There are doubts about some of the UK's largest companies, most notably the oil majors, being able to sustain the dividends they are paying today given the backdrop of falling profits as a result of poor investment decisions made when the oil price was closer to US\$100 per barrel. We may now know the outcome of the referendum, but the economic impact of the UK leaving the European Union is likely to remain unclear for the foreseeable future. As a result, we believe it is possible that companies reliant on the domestic

economy will use Brexit as an excuse to temper, if not cut dividends. We will be disciplined about our company research to avoid these potential pitfalls, but we are also aware that the special dividends we have received in recent years may not be repeated. The fund's income will continue to need close scrutiny in the next 12 months. We live in uncertain times, but we believe the cash-generative nature of the fund's underlying holdings, their ability to grow dividends and their attractive valuation in the stockmarket stand us in good stead for the future. The fund's yield of 4.86%, which we aim to grow over time, offers a favourable proposition for long-term investors, in our view, in an environment where interest rates are low and growth is scarce. We appreciate your continued support.

Phil Cliff

Fund manager

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

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

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

Investments

Portfolio statement

as at 30 June	2016	2016	2015 [a]
Holding	£'000	%	%
Oil & gas producers	70.679	5,83	5,86
16.427.389 BP	70.679	5,83	
Chemicals	8.899	0,73	0,00
273.000 Covestro	8.899	0,73	
Mining	23.185	1,91	3,77
1.020.000 Rio Tinto	23.185	1,91	
Aerospace & defence	52.531	4,33	0,85
10.250.000 BAE Systems	52.531	4,33	
General industrials	34.627	2,86	5,23
9.155.861 DS Smith	34.627	2,86	
Industrial engineering	42.278	3,49	3,54
660.100 Kone	22.326	1,84	
542.917 Spirax-Sarco Engineering	19.952	1,65	
Industrial transportation	18.839	1,55	4,41
1.556.000 Golar LNG	18.839	1,55	
Support services	46.395	3,83	9,44
6.528.000 Essentra	32.934	2,72	
4.765.000 Regus	13.461	1,11	
Beverages	24.436	2,02	1,97
4.170.000 Britvic	24.436	2,02	
Food producers	22.825	1,88	0,97
3.490.000 Tate & Lyle	22.825	1,88	
Household goods & home construction	9.828	0,81	0,00
5.850.000 Mccarthy & Stone	9.828	0,81	
Tobacco	139.633	11,52	8,34
1.729.800 British American Tobacco	81.370	6,71	
1.470.000 Imperial Brands (Formerly Imperial Tobacco)	58.263	4,81	

M&G Dividend Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at 30 June Holding	2016 £'000	2016 %	2015 ^[a] %	
Pharmaceuticals & biotechnology	132.899	10,97	7,71	
702.000 AstraZeneca	30.309	2,50		
4.584.610 GlaxoSmithKline	71.176	5,88		
520.400 Novartis (Regd.)	31.414	2,59		
General retailers	56.518	4,66	6,51	
3.205.500 Dunelm Group	24.650	2,03		
93.642 Inchcape	580	0,05		
16.450.000 Saga	31.288	2,58		
Media	111.472	9,20	4,65	
2.665.000 RELX (formerly Reed Elsevier)	35.791	2,96		
970.000 RELX (formerly Reed Elsevier) (Dutch Listing)	12.380	1,02		
3.151.051 SES Global	50.670	4,18		
820.200 WPP	12.631	1,04		
Travel & leisure	54.571	4,50	3,50	
2.297.700 Compass Group	32.053	2,64		
3.543.304 Gaming VC Holdings ^[b]	19.754	1,63		
329.197 TUI	2.764	0,23		
Mobile telecommunications	0,00	0,00	2,41	
Fixed line telecommunications	38.707	3,19	2,07	
9.535.000 BT Group	38.707	3,19		
Electricity	27.735	2,29	1,74	
1.863.937 SSE	27.735	2,29		
Banks	48.906	4,04	5,55	
1.739.265 HSBC Holdings	7.934	0,65		
6.570.000 Nordea Bank	40.972	3,39		
Non-life insurance	55.084	4,55	2,98	
7.388.733 Direct Line Insurance Group	25.092	2,07		
2.080.000 Hiscox	20.727	1,71		
1.610.000 Lancashire Holdings	9.265	0,77		
Life insurance	64.312	5,31	10,00	
8.989.331 Aviva	34.843	2,88		
3.146.205 Legal & General Group	5.940	0,49		
2.999.177 Phoenix Group	23.529	1,94		
Real estate investment trusts	30.355	2,50	1,53	
19.955.000 Hansteen Holdings	19.995	1,65		
3.511.881 NewRiver Retail	10.360	0,85		
Financial services	56.671	4,68	4,21	
3.378.000 Intermediate Capital Group	16.383	1,35		
5.850.000 Jupiter Fund Management	20.914	1,73		
853.106 Provident Financial	19.374	1,60		
Equity investment instruments	16.880	1,39	0,70	
600.000 Honeycomb Investment Trust	6.000	0,50		
679.031 P2P Global Investments	5.629	0,46		
550.727 Ranger Direct Lending Fund	5.251	0,43		
Software & computer services	30.669	2,53	3,69	
101.811 Fidessa Group	1.996	0,16		
1.846.271 Micro Focus International	28.673	2,37		
Unquoted / unlisted	0	0,00	0,00	
377.518 Izodia ^[c]	0	0,00		

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 ^[a] %
Options	(372)	(0,03)	0,00
€9.449.328 Bought for £7.890.000 (expires 08.07.16)	(81)	(0,01)	
€(19.349.273) Sold for £15.700.000 (expires 08.07.16)	(291)	(0,02)	
Portfolio of investments	1.218.562	100,54	101,63
'AAA' rated money market funds ^[d]	8.861	0,73	1,25
8.861.000 Northern Trust Global Fund - Sterling	8.861	0,73	
Total portfolio (notes 2c & 2d on page 6)	1.227.423	101,27	102,88
Net other assets / (liabilities)	(15.343)	(1,27)	(2,88)
Net assets attributable to shareholders	1.212.080	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 sector classifications.

^[b] AIM quoted.

^[c] Suspended.

^[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 30 June 2016

Largest purchases	£'000
BAE Systems	57.465
SES Global	35.033
Saga	33.024
Nordea Bank	31.690
AstraZeneca	29.974
Phoenix Group	26.971
BP	21.714
Intermediate Capital Group	20.758
BHP Billiton	19.999
WPP	19.978
Other purchases	299.398
Total purchases	596.004
Largest sales	£'000
Prudential ^[a]	45.459
Vodafone Group	38.493
Capita Group	38.152
Inchcape	38.045
Rio Tinto	31.360
RPC Group	29.608
Nordea Bank	27.896
Cobham Plc	22.931
HSBC Holdings	22.385
Amlin	20.948
Other sales	319.044
Total sales	634.321

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

^[a] Related party to the fund.

M&G Dividend 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 (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2016 £'000	2015 £'000	2014 £'000
Fund net asset value (NAV)	1,212,080	1,311,970	1,299,934

Share class performance since launch

To give an indication of how the fund has performed since launch, the graph 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

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 Dividend Fund

Financial highlights

Fund performance

Historic yield since launch

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

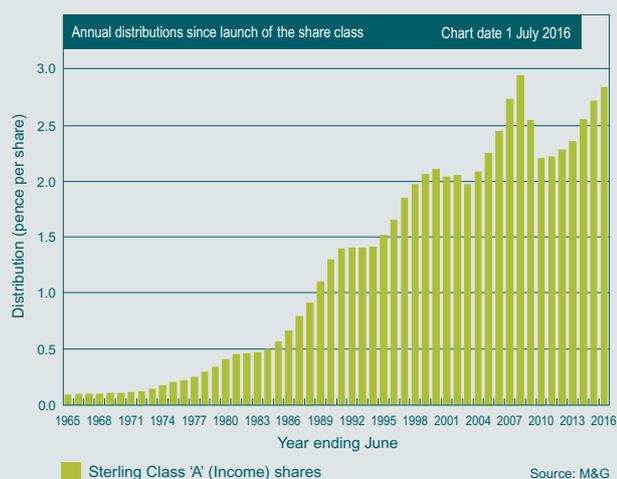


Source: Morningstar, Inc. and M&G

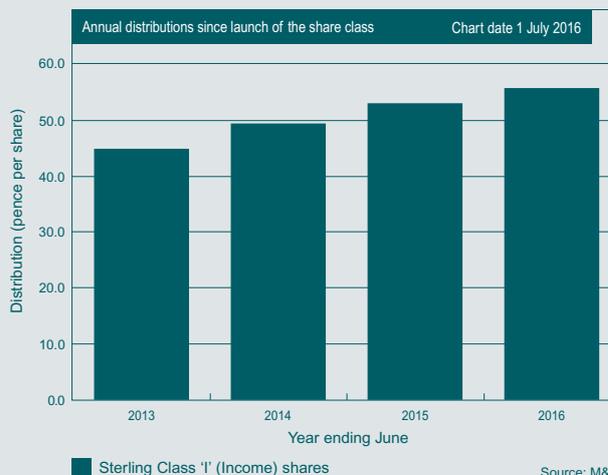
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Distribution since launch

The graphs 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 long-term 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 01.07.15 % ^[a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Sterling ^[b]				
Class 'A'	-0,4	+5,9	+5,9	+11,2 ^[c]
Class 'C'	+0,7	+7,7	+7,7	+5,9 ^[d]
Class 'I'	+0,3	+6,7	n/a	+8,4 ^[e]
Class 'R'	+0,1	+6,4	n/a	+8,2 ^[e]
Class 'X'	-0,4	+5,9	+5,9	+7,6 ^[f]

^[a] Absolute basis.

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

^[c] 6 May 1964, the end of the initial offer period of the predecessor unit trust.

^[d] 3 January 2006, 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 Dividend Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
as at 30 June	2016	2015	2014	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0,05	0,04	0,05	0,05
Taxes	0,15	0,08	0,10	0,11
Costs before dilution adjustments	0,20	0,12	0,15	0,16
Dilution adjustments ^[c]	(0,03)	(0,02)	(0,03)	(0,03)
Total direct portfolio transaction costs	0,17	0,10	0,12	0,13
as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,13	0,13	0,13	0,13

^[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 Dividend 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 6 May 1964.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	61,14	59,34	56,16
Return before operating charges and after direct portfolio transaction costs	(0,79)	5,55	6,75
Operating charges	(0,99)	(1,02)	(1,01)
Return after operating charges	(1,78)	4,53	5,74
Distributions	(2,84)	(2,73)	(2,56)
Closing NAV	56,52	61,14	59,34
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,12	0,08	0,09
Dilution adjustments ^[b]	(0,02)	(0,02)	(0,02)
Total direct portfolio transaction costs	0,10	0,06	0,07
Performance and charges	%	%	%
Direct portfolio transaction costs	0,17	0,10	0,12
Operating charges	1,66	1,66	1,66
Return after operating charges	-2,91	+7,63	+10,22
Historic yield	4,91	4,40	4,33
Effect on yield of charges offset against capital	1,66	1,66	1,66
Other information			
Closing NAV (£'000)	331.842	410.004	435.380
Closing NAV percentage of total fund NAV (%)	27,38	31,25	33,49
Number of shares	587.109.164	670.549.627	733.711.318
Highest share price (UK p)	62,94	66,28	62,80
Lowest share price (UK p)	53,65	54,53	55,91

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 May 1964.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	612,62	568,76	516,08
Return before operating charges and after direct portfolio transaction costs	(8,10)	53,68	61,98
Operating charges	(9,94)	(9,82)	(9,30)
Return after operating charges	(18,04)	43,86	52,68
Closing NAV	594,58	612,62	568,76
Retained distributions	28,70	26,37	23,71
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1,23	0,74	0,83
Dilution adjustments ^[b]	(0,19)	(0,15)	(0,19)
Total direct portfolio transaction costs	1,04	0,59	0,64
Performance and charges	%	%	%
Direct portfolio transaction costs	0,17	0,10	0,12
Operating charges	1,66	1,66	1,66
Return after operating charges	-2,94	+7,71	+10,21
Historic yield	4,72	4,25	4,18
Effect on yield of charges offset against capital	1,66	1,66	1,66
Other information			
Closing NAV (£'000)	80.425	94.465	97.932
Closing NAV percentage of total fund NAV (%)	6,64	7,20	7,53
Number of shares	13.526.383	15.419.752	17.218.313
Highest share price (UK p)	630,43	643,79	584,49
Lowest share price (UK p)	544,66	522,62	513,68

Sterling Class 'C' Income share performance

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

The share class was launched on 3 January 2006.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	71,13	67,99	63,37
Return before operating charges and after direct portfolio transaction costs	(0,93)	6,40	7,64
Operating charges	(0,11)	(0,11)	(0,11)
Return after operating charges	(1,04)	6,29	7,53
Distributions	(3,33)	(3,15)	(2,91)
Closing NAV	66,76	71,13	67,99
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,14	0,09	0,10
Dilution adjustments ^[b]	(0,02)	(0,02)	(0,02)
Total direct portfolio transaction costs	0,12	0,07	0,08
Performance and charges	%	%	%
Direct portfolio transaction costs	0,17	0,10	0,12
Operating charges	0,16	0,16	0,16
Return after operating charges	-1,46	+9,25	+11,88
Historic yield	4,88	4,37	4,30
Effect on yield of charges offset against capital	0,16	0,16	0,16
Other information			
Closing NAV (£'000)	674.464	705.210	684.835
Closing NAV percentage of total fund NAV (%)	55,65	53,75	52,68
Number of shares	1.010.299.299	991.504.569	1.007.297.127
Highest share price (UK p)	73,32	76,99	71,89
Lowest share price (UK p)	62,99	62,76	63,10

M&G Dividend 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 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,195.32	1,151.24	1,081.55
Return before operating charges and after direct portfolio transaction costs	(15.49)	108.19	129.96
Operating charges	(10.59)	(10.94)	(10.77)
Return after operating charges	(26.08)	97.25	119.19
Distributions	(55.79)	(53.17)	(49.50)
Closing NAV	1,113.45	1,195.32	1,151.24

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	2.39	1.50	1.76
Dilution adjustments ^[b]	(0.37)	(0.30)	(0.40)
Total direct portfolio transaction costs	2.02	1.20	1.36

Performance and charges	%	%	%
Direct portfolio transaction costs	0.17	0.10	0.12
Operating charges	0.91	0.91	0.91
Return after operating charges	-2.18	+8.45	+11.02
Historic yield	4.89	4.39	4.31
Effect on yield of charges offset against capital	0.91	0.91	0.91

Other information

Closing NAV (£'000)	77,633	54,178	36,212
Closing NAV percentage of total fund NAV (%)	6.41	4.13	2.79
Number of shares	6,972,258	4,532,489	3,145,450
Highest share price (UK p)	1,230.91	1,294.80	1,217.85
Lowest share price (UK p)	1,053.70	1,060.31	1,076.49

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,358.02	1,251.31	1,127.13
Return before operating charges and after direct portfolio transaction costs	(17.92)	118.72	135.57
Operating charges	(12.12)	(12.01)	(11.39)
Return after operating charges	(30.04)	106.71	124.18
Closing NAV	1,327.98	1,358.02	1,251.31
Retained distributions	63.88	58.27	51.97

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	2.74	1.65	1.85
Dilution adjustments ^[b]	(0.42)	(0.33)	(0.43)
Total direct portfolio transaction costs	2.32	1.32	1.42

Performance and charges	%	%	%
Direct portfolio transaction costs	0.17	0.10	0.12
Operating charges	0.91	0.91	0.91
Return after operating charges	-2.21	+8.53	+11.02
Historic yield	4.70	4.23	4.17
Effect on yield of charges offset against capital	0.91	0.91	0.91

Other information

Closing NAV (£'000)	16,664	12,028	7,028
Closing NAV percentage of total fund NAV (%)	1.37	0.92	0.54
Number of shares	1,254,832	885,734	561,670
Highest share price (UK p)	1,398.07	1,426.17	1,285.47
Lowest share price (UK p)	1,213.02	1,152.45	1,121.80

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	118.67	114.58	107.89
Return before operating charges and after direct portfolio transaction costs	(1.54)	10.75	12.98
Operating charges	(1.34)	(1.38)	(1.36)
Return after operating charges	(2.88)	9.37	11.62
Distributions	(5.53)	(5.28)	(4.93)
Closing NAV	110.26	118.67	114.58

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.24	0.15	0.17
Dilution adjustments ^[b]	(0.04)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.20	0.12	0.13

Performance and charges	%	%	%
Direct portfolio transaction costs	0.17	0.10	0.12
Operating charges	1.16	1.16	1.16
Return after operating charges	-2.43	+8.18	+10.77
Historic yield	4.90	4.39	4.32
Effect on yield of charges offset against capital	1.16	1.16	1.16

Other information

Closing NAV (£'000)	1,017	1,210	859
Closing NAV percentage of total fund NAV (%)	0.08	0.09	0.07
Number of shares	922,826	1,019,301	750,000
Highest share price (UK p)	122.18	128.58	121.23
Lowest share price (UK p)	104.44	105.45	107.41

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	134.79	124.51	112.41
Return before operating charges and after direct portfolio transaction costs	(1.79)	11.80	13.52
Operating charges	(1.53)	(1.52)	(1.42)
Return after operating charges	(3.32)	10.28	12.10
Closing NAV	131.47	134.79	124.51
Retained distributions	6.34	5.79	5.18

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.27	0.16	0.18
Dilution adjustments ^[b]	(0.04)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.23	0.13	0.14

Performance and charges	%	%	%
Direct portfolio transaction costs	0.17	0.10	0.12
Operating charges	1.16	1.16	1.16
Return after operating charges	-2.46	+8.26	+10.76
Historic yield	4.71	4.24	4.17
Effect on yield of charges offset against capital	1.16	1.16	1.16

Other information

Closing NAV (£'000)	173	116	74
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	131,843	85,873	59,000
Highest share price (UK p)	138.74	141.58	127.92
Lowest share price (UK p)	120.21	114.58	111.89

M&G Dividend 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 30 June	2016	2015	2014
Change in NAV per share	UK p	UK p	UK p
Opening NAV	61,43	59,61	56,42
Return before operating charges and after direct portfolio transaction costs	(0,80)	5,58	6,77
Operating charges	(0,99)	(1,02)	(1,01)
Return after operating charges	(1,79)	4,56	5,76
Distributions	(2,86)	(2,74)	(2,57)
Closing NAV	56,78	61,43	59,61
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,12	0,08	0,09
Dilution adjustments ^[b]	(0,02)	(0,02)	(0,02)
Total direct portfolio transaction costs	0,10	0,06	0,07
Performance and charges	%	%	%
Direct portfolio transaction costs	0,17	0,10	0,12
Operating charges	1,66	1,66	1,66
Return after operating charges	-2,92	+7,65	+10,21
Historic yield	4,91	4,40	4,33
Effect on yield of charges offset against capital	1,66	1,66	1,66
Other information			
Closing NAV (£'000)	26.226	30.566	30.995
Closing NAV percentage of total fund NAV (%)	2,16	2,33	2,38
Number of shares	46.187.806	49.761.291	51.994.602
Highest share price (UK p)	63,23	66,59	63,09
Lowest share price (UK p)	53,89	54,78	56,16

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June	2016	2015	2014
Change in NAV per share	UK p	UK p	UK p
Opening NAV	606,02	562,67	510,54
Return before operating charges and after direct portfolio transaction costs	(8,01)	53,00	61,38
Operating charges	(9,84)	(9,65)	(9,25)
Return after operating charges	(17,85)	43,35	52,13
Closing NAV	588,17	606,02	562,67
Retained distributions	28,39	26,09	23,45
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1,21	0,72	0,83
Dilution adjustments ^[b]	(0,19)	(0,14)	(0,19)
Total direct portfolio transaction costs	1,02	0,58	0,64
Performance and charges	%	%	%
Direct portfolio transaction costs	0,17	0,10	0,12
Operating charges	1,66	1,66	1,66
Return after operating charges	-2,95	+7,70	+10,21
Historic yield	4,72	4,25	4,18
Effect on yield of charges offset against capital	1,66	1,66	1,66
Other information			
Closing NAV (£'000)	3.636	4.193	6.619
Closing NAV percentage of total fund NAV (%)	0,30	0,32	0,51
Number of shares	618.235	691.877	1.176.363
Highest share price (UK p)	623,63	636,85	578,20
Lowest share price (UK p)	538,79	517,00	508,17

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

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

M&G Dividend Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 30 June	Note	2016		2015	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(76.200)		64.630
Revenue	5	62.524		60.395	
Expenses	6	(10.114)		(11.060) ^[a]	
Net revenue / (expense) before taxation		52.410		49.335	
Taxation	7	(893)		(493)	
Net revenue / (expense) after taxation			51.517		48.842
Total return before distributions			(24.683)		113.472
Distributions	8		(61.599)		(59.777)
Change in net assets attributable to shareholders from investment activities			(86.282)		53.695

Statement of change in net assets attributable to shareholders

for the year to 30 June	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1.311.970		1.299.934
Amounts received on issue of shares	141.649		90.219 ^[a]	
Amounts paid on cancellation of shares	(160.972)		(137.360) ^[a]	
		(19.323)		(47.141)
Dilution adjustments		603		480 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)		(86.282)		53.695
Retained distributions on Accumulation shares		4.931		4.841
Unclaimed distributions		181		161
Closing net assets attributable to shareholders		1.212.080		1.311.970

Balance sheet

as at 30 June	Note	2016 £'000	2015 £'000
Assets			
Fixed assets			
Investments		1.227.795	1.349.729
Current assets			
Debtors	9	11.844	6.294
Cash and bank balances	10	14.644	405
Total assets		1.254.283	1.356.428
Liabilities			
Investment liabilities		(372)	0
Creditors			
Distribution payable		(40.012)	(37.780)
Other creditors	11	(1.819)	(6.678)
Total liabilities		(42.203)	(44.458)
Net assets attributable to shareholders		1.212.080	1.311.970

[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling £603.000 (2015: £480.000) have been reclassified from 'Amounts received on issue of shares' of £541.000 (2015: £346.000) and 'Amounts paid on cancellation of shares' of £62.000 (2015: £134.000).

Interest payable of £32.000 (2015: £30.000) has been reclassified from 'Distributions' into 'Expenses'.

2 Distribution policy

In determining the amount available for distribution, all expenses, with the exception of overdraft interest, are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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

3 Net capital gains / (losses)

for the year to 30 June	2016 £'000	2015 £'000
Non-derivative securities	(76.123)	64.672
Derivative contracts	(372)	0
Currency gains / (losses)	301	(38)
Transaction charges	(6)	(4)
Net capital gains / (losses)	(76.200)	64.630

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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 37.

for the year to 30 June	2016 £'000	% of transaction	2015 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	593.733		362.221	
Commissions	347	0,06	236	0,07
Taxes	1.924	0,32	1.159	0,32
Total purchases after transaction costs	596.004		363.616	
b) Sales				
Equities				
Equities before transaction costs	634.689		420.934	
Commissions	(368)	0,06	(285)	0,07
Total sales after transaction costs	634.321		420.649	
c) Direct portfolio transaction costs				
	2016 £'000	% of average NAV	2015 £'000	% of average NAV
Commissions paid				
Equities	715	0,05	521	0,04
Taxes paid				
Equities	1.924	0,15	1.159	0,08
Total direct portfolio transaction costs ^[a]	2.639	0,20	1.680	0,12
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[b]		0,13		0,13

^[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 30 June	2016 £'000	2015 £'000
Bank interest	0	1
Distributions from underlying funds: taxable	495	0
Distributions from underlying funds: property income dividends	655	403
Dividends from equity investments: non-taxable	58.274	59.080
Interest distributions	29	18
Stock dividends	2.968	803
Underwriting commission	103	90
Total revenue	62.524	60.395

6 Expenses

for the year to 30 June	2016 £'000	2015 £'000
Payable to the ACD or associate		
Annual management charge	8.055	8.896
Administration charge	1.935	2.020
	9.990	10.916
Payable to the Depository or associate		
Depository's charge (including VAT)	63	64
Other expenses		
Audit fee (including VAT)	9	7
Interest payable	32	30
Safe custody charge	20	43
	61	80
Total expenses	10.114	11.060

7 Taxation

for the year to 30 June	2016 £'000	2015 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	893	493
Deferred tax (note 7c)	0	0
Total taxation	893	493
b) Factors affecting taxation charge for the year		
Net revenue before taxation	52.410	49.335
Corporation tax at 20%	10.482	9.867
Effects of:		
Dividends from equity investments: non-taxable	(11.655)	(11.816)
Stock dividends not taxable	(593)	(161)
Current year expenses not utilised	1.766	2.110
Withholding tax	893	493
Total tax charge (note 7a)	893	493
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 £34.179.000 (2015: £32.413.000) 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 30 June	2016		2015	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
Interim	15.892	1.422	16.272	1.458
Final	40.013	3.509	37.780	3.383
Total net distributions	60.836		58.893	
Income deducted on cancellation of shares		1.835		1.732
Income received on issue of shares		(1.072)		(848)
Distributions	61.599		59.777	
Net revenue per statement of total return	51.517		48.842	
Expenses offset against capital	10.082		11.030	
Relief on expenses offset against capital	0		(96)	
Undistributed income brought forward	0		1	
Distributions	61.599		59.777	

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

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9 Debtors

as at 30 June	2016 £'000	2015 £'000
Amounts receivable on issues of shares	614	505
Distributions receivable	1	3
Dividends receivable	3,027	3,071
Sales awaiting settlement	7,267	2,118
Withholding tax recoverable	935	597
Total debtors	11,844	6,294

10 Cash and bank balances

as at 30 June	2016 £'000	2015 £'000
Cash held as bank balances	14,644	405
Total cash and bank balances	14,644	405

11 Other creditors

as at 30 June	2016 £'000	2015 £'000
ACD's annual management charge payable	204	198
Administration charge payable	51	46
Amounts payable on cancellation of shares	403	1,059
Expenses payable	20	13
Purchases awaiting settlement	1,141	5,362
Total other creditors	1,819	6,678

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: 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 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Sterling				
Class 'A' Income (Net)	670,549,627	10,349,552	(93,790,015)	587,109,164
Class 'A' Accumulation (Net)	15,419,752	75,112	(1,968,481)	13,526,383
Class 'C' Income (Net)	991,504,569	137,536,798	(118,742,068)	1,010,299,299
Class 'I' Income (Net)	4,532,489	2,879,506	(439,737)	6,972,258
Class 'I' Accumulation (Net)	885,734	522,678	(153,580)	1,254,832
Class 'R' Income (Net)	1,019,301	139,337	(235,812)	922,826
Class 'R' Accumulation (Net)	85,873	107,970	(62,000)	131,843
Class 'X' Income (Net)	49,761,291	3,800,744	(7,374,229)	46,187,806
Class 'X' Accumulation (Net)	691,877	70,318	(143,960)	618,235

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	n/a	1,50
Class 'C'	nil	n/a	nil
Class 'I'	1,00	n/a	0,75
Class 'R'	1,00	n/a	1,00
Class 'X'	nil	4,50 ^[a]	1,50

[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

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 to the ACD 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 Prudential plc, with a total value of £51,508,000 (2015: £9,187,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £nil (2015: £45,258,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 55,89% (2015: 52,43%) of the fund's shares.

16 Events after the balance sheet date

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

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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.

Valuation technique	Assets 2016 £'000	Liabilities 2016 £'000	Assets 2015 £'000	Liabilities 2015 £'000
Level 1	1,218,934	0	1,333,375	0
Level 2	8,861	(372)	16,354	0
Level 3	0	0	0	0
	1,227,795	(372)	1,349,729	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

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

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 £60,928,000 (2015: £66,669,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk

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

21 Interest rate risk

The majority of the assets are non interest bearing and therefore interest rate risk is not considered significant for the fund.

22 Counterparty exposure

as at 30 June 2016	Options £'000	Net exposure £'000
State Street Bank	(372)	(372)
Total	(372)	(372)

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.

23 Dividend distribution tables

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

Half yearly distribution periods				
	Start	End	Xd	Payment
Interim	01.07.15	31.12.15	04.01.16	29.02.16
Final	01.01.16	30.06.16	01.07.16	31.08.16

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 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,2588	0,5417	0,8005	0,8005
Final	0,8596	1,1828	2,0424	1,9283

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	1,7849	6,2335	8,0184	7,6681
Final	6,4714	14,2142	20,6856	18,7053

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23 Dividend distribution tables (continued)

Sterling Class 'C' Income shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,4263	0,5081	0,9344	0,9200
Final	1,4343	0,9650	2,3993	2,2333

Sterling Class 'I' Income shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	2,6753	12,9956	15,6709	15,5549
Final	11,1430	28,9804	40,1234	37,6143

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	6,7485	11,0503	17,7988	16,8954
Final	18,4721	27,6062	46,0783	41,3790

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,2765	1,2787	1,5552	1,5475
Final	1,8082	2,1687	3,9769	3,7369

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	1,5859	0,1831	1,7690	1,6801
Final	4,5673	0,0000	4,5673	4,1098

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,1331	0,6711	0,8042	0,8042
Final	1,1386	0,9131	2,0517	1,9371

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	4,2836	3,6482	7,9318	7,5855
Final	9,2403	11,2224	20,4627	18,5029

M&G Dividend Fund

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M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investment objective

The Fund aims to maximise total return (the combination of income and growth of capital).

Investment policy

The Fund invests mainly in debt instruments issued by emerging market borrowers, including government, government agency and corporate debt. There are no restrictions on the currencies to which the Fund may be exposed. Derivatives may be used for investment purposes as well as for efficient portfolio management. The Fund may also invest in collective investment schemes, other transferable securities (including other debt instruments), cash and near cash, deposits, warrants and money market instruments.

M&G has the discretion to identify the countries that it considers to qualify as emerging markets although these will typically be those that the IMF or World Bank define as emerging or developing economies.

Investment approach

The fund's investment approach begins with a top-down assessment of macroeconomic factors such as global risk appetite and structural global growth catalysts. On a regional and country-specific level, factors such as monetary and fiscal policies, capital flows, and political and regulatory environments will be assessed. The result of this analysis will help inform the fund's country and currency allocations and its duration. Individual credit selection is determined by a thorough credit analysis and an assessment of valuations. Both macroeconomic and stock-specific analysis is undertaken in close conjunction with the deputy fund manager and the internal credit analysts. The fund is diversified by investing in a range of assets across global emerging markets and is unconstrained by a benchmark with a flexible strategy.

Risk profile

The fund invests mainly in fixed income securities, or bonds, issued by governments and companies in emerging markets. It can also invest in emerging market currencies. It is, therefore, subject to the price volatility of the global bond market and the performance of individual issuers. The fund is also subject to fluctuations in currency exchange rates.

The fund's focus is on emerging markets, and hence it may be more volatile compared to a fund that invests mainly in the securities of companies in developed countries. The reasons for this greater volatility include: the financial infrastructure in emerging markets is typically less mature, the regulatory systems and disclosure standards are less developed and adverse market and political circumstances are more likely to occur in these markets.

The fund is fully flexible and may use derivatives to achieve the manager's desired exposure to emerging market bonds and currencies. 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 July 2016, for the year ended 30 June 2016

Performance against objective

Between 1 July 2015 (the start of the review period) and 1 July 2016, the M&G Emerging Markets Bond Fund produced positive returns across each of its different share classes.^[a] The fund's sterling share classes delivered markedly higher returns than the euro, Swiss franc, and US dollar share classes. Given that a high exposure to the US dollar was maintained in the fund throughout the review period, this variance resulted from the significant appreciation of the US dollar against the British pound over the 12 months. Positive returns were generally recorded across the main segments of the emerging bond markets, which helped the performance of all of the fund's share classes. The fund's objective is to maximise total returns (the combination of income and growth of capital).

Investment performance

A number of key global themes influenced the performance of financial markets during the 12 months under review. Towards the end of 2015, for example, these included the prospect of an interest rate rise by the Federal Reserve (Fed) as the US economy continued to perform well. This move was confirmed in December when the Fed announced a 0,25% rate increase.

Expectations that US interest rates might rise tend to weaken sentiment towards bonds. (Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'). This effect is typically felt in both developed and emerging markets, largely because of the size and importance of the US bond market within a global context.

However, several factors led other major central banks to leave interest rates unchanged, or even reduce them. Among these considerations were worries about China's decelerating economy,

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Investment review

Investment performance (continued)

renewed declines in oil and commodity prices, and generally subdued inflation rates. As 2016 progressed, concerns emerged that global economic growth was slowing, and interest rates are not typically increased in such an environment.

In addition, in the final month of the review period, a UK referendum on the country's membership of the European Union (EU) produced an unexpected 'leave' result. While a 'remain' outcome had been increasingly expected as the referendum approached, investors were left weighing the implications of a UK exit from the EU, with most economists expecting a weaker economic outlook to follow. Another knock-on consideration was that investors began to anticipate in the aftermath of the vote that interest rates in key markets, including the US, would remain low for longer.

The ongoing environment of low interest rates and inflation provided a helpful backdrop for the performance of global bonds and, in emerging markets, positive returns were recorded across both the government and corporate bond segments. As a result, the fund's performance benefited from the maintenance of a diversified global portfolio of these assets.

Within the period, however, there were some notable fluctuations in the returns of emerging market bonds. This often resulted from increased concerns about China's slower economic outlook or the adverse effect of weaker oil and commodity demand for producers in these industries in developing countries. Partly as a result, emerging bond markets delivered weak returns towards the end of 2015 and in the first two months of 2016, which held back the fund's performance during this time.

However, a rebound followed during March and April, when emerging market bonds produced a rally that offset their weakness in the previous months. This was helped by important policy moves from the European Central Bank (ECB) in response to the continued slow growth of the eurozone economy. The ECB's measures involved an expansion of the significant economic stimulus programme that it already had in place, including reducing interest rates further into negative territory. As a consequence, negative bond yields became increasingly common across European government bond markets, which supported the investment proposition of positive-yielding areas of the bond markets, such as could be found in emerging economies. (Bond yields refer to the interest received from a fixed interest security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.)

We maintained a sizeable exposure to the US dollar throughout the review period. Given the significant appreciation of the US dollar against sterling during this time, this currency positioning particularly boosted the returns of the fund's sterling-denominated share classes.

Investment activities

Throughout the review period, we continued to believe that a key performance contributor when investing in emerging bond markets is the successful allocation of a portfolio's assets between corporate bonds and government bonds, denominated in either local currencies or 'hard' currencies such as the US dollar and euro.

During the first half of the period, we took advantage of the fund's flexible investment approach by maintaining a very high exposure to emerging market government and corporate bonds denominated in hard currencies, mainly the US dollar. We assessed that these assets looked attractive relative to their counterparts denominated in local emerging market currencies and, in the case of corporate bonds, when compared to their peers in developed markets.

Going into 2016, however, our key investment themes included looking to add to the fund's allocation to local-currency emerging market bonds after the relative underperformance of this area during the previous quarters. In our view, their valuations had fallen to levels that offered attractive buying opportunities on a selective basis. In Asia, for example, we purchased local currency-denominated bonds from the government of the Philippines, feeling that the investment offered appealing value on yield grounds, as well as relative to government bonds in other Asian markets.

Elsewhere, our favoured themes included adding to the fund's exposure to some eastern European markets as we felt they should benefit indirectly from the ECB's expansion of economic stimulus measures. The central bank's policies helped to push yields lower in the euro area, which improved the attraction of investing in some of these higher yielding neighbouring markets. Among the fund's transactions was the purchase of local currency bonds from the government of Romania, which we assessed paid an appealing yield relative to other government bonds in eastern Europe, as well as compared to developed European markets. In contrast, a holding in Polish government bonds was sold as we considered they offered less upside potential.

In Latin America, our investment activity included buying newly issued bonds from the government of Argentina. We have a favourable view on the outlook for the country, believing that its government is on course to deliver positive reform momentum while continuing to improve its relations with the West. After recording solid performance, we took profits on these government bonds and switched the proceeds into Argentinian energy company YPF.

Outlook

At the end of the review period, much attention remained focused in financial markets on the implications of the UK referendum result to leave the EU. Among adverse considerations, investors assessed the prospect of slower economic growth outlook in the UK and Europe, and the possibility that this could lead to weaker global growth, including in emerging market economies.

However, the more uncertain outlook following the vote raised the likelihood that interest rates in key markets, including the important US economy, should remain at their current low levels for longer. In the eurozone, meanwhile, the recent expansion of the ECB's significant economic stimulus programme even took interest rates further into negative levels in the region. As the review period closed, this backdrop was supportive of investors' sentiment towards emerging markets as they are among the higher yielding areas of the bond universe.

Among other themes, the performance of emerging market bonds was helped as 2016 progressed by factors such as firmer price trends in the oil and commodity markets, in contrast to the falling price environment that had been a concern for investors during much of 2015. For many emerging economies, export revenues from oil and commodity production are important, with steadier prices benefitting the corporations and governments that operate in these sectors.

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Investment review

Outlook (continued)

As ever when investing in the emerging bond markets, we believe that a flexible investment approach remains key, and we will continue to allocate the fund's assets where we see the best relative value and avoid areas or countries where the outlook is unfavourable. Through this approach, we believe that attractive investment opportunities may still be found in the emerging bond markets on a selective basis.

Claudia Calich

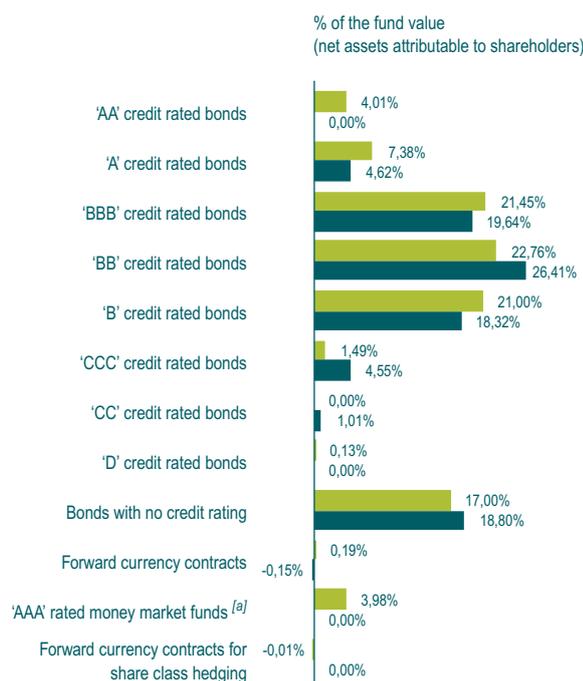
Fund manager

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

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

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

Classification of investments



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

■ 30 June 2016
■ 30 June 2015

Source: M&G

Investments

Portfolio statement

as at 30 June Holding	2016 \$'000	2016 %	2015 %
Debt securities	214.890	95,22	93,35
'AA' credit rated bonds	9.058	4,01	0,00
\$1.400.000 Qatar (State of) 9,75% 2030	2.324	1,03	
\$6.600.000 US Treasury 3,25% 2017	6.734	2,98	
'A' credit rated bonds	16.661	7,38	4,62
\$2.800.000 Israel (State of) 4,5% 2043	3.133	1,39	
\$2.000.000 Lithuania (Republic of) 6,625% 2022	2.417	1,07	
MXN40.000.000 Mexico (United Mexican States) 7,75% 2042	2.481	1,10	
MXN55.232.300 Petróleos Mexicano 7,19% 2024	2.674	1,18	
\$2.500.000 Slovenia (Republic of) 5,5% 2022	2.835	1,26	
THB114.000.000 Thailand (Kingdom of) 1,25% IL 2028	3.121	1,38	
'BBB' credit rated bonds	48.385	21,45	19,64
\$6.000.000.000 Colombia (Republic of) 6% 2028	1.810	0,80	
\$2.750.000 Development Bank Philippines 5,5% 2021	3.127	1,39	
\$2.000.000 Embraer Netherlands 5,05% 2025	1.959	0,87	
COP3.790.000.000 Fin Desarrollo Territoria 7,875% 2024	1.133	0,50	
\$2.400.000 Iceland (Republic of) 5,875% 2022	2.784	1,23	
\$1.500.000 Israel Electric 7,75% 2027	1.817	0,80	
\$1.600.000 Kazakhstan (Republic of) 5,125% 2025	1.753	0,78	
\$2.000.000 Lima Metro Line 2 Finance 5,875% 2034	2.072	0,92	
\$2.000.000 Lukoil International Finance 4,563% 2023	2.021	0,90	
\$2.600.000 Mexichem 5,875% 2044	2.366	1,05	
COP2.760.000 Morocco (Kingdom of) 3,5% 2024	3.214	1,43	
€1.250.000 NE Property Coöperatief 3,75% 2021	1.442	0,64	
\$1.500.000 Panama (Republic of) 8,875% 2027	2.194	0,97	
PHP120.000.000 Philippines (Republic of) 6,25% 2036	2.891	1,28	
RON10.000.000 Romania (Republic of) 5,8% 2027	2.887	1,28	
\$2.000.000 Romania (Republic of) 6,75% 2022	2.368	1,05	
\$2.200.000 Russia (Federation of) 4,875% 2023	2.398	1,06	
RUB280.000.000 Russia (Federation of) 7,4% 2017	4.279	1,90	
ZAR58.000.000 South Africa (Republic of) 8,75% 2048	3.587	1,59	
\$2.300.000 Uruguay (Republic of) 5,1% 2050	2.283	1,01	
'BB' credit rated bonds	51.371	22,76	26,41
\$2.118.000 Banglalink Digital Communications 8,625% 2019	2.243	0,99	
BRL10.000.000 Brazil (Federal Republic of) 10% 2025	2.782	1,23	
€3.000.000 Bulgaria (Republic of) 2% 2022	3.418	1,51	
\$2.200.000 Dominican Republic 5,5% 2025	2.235	0,99	
\$2.500.000 Gazprom (Gaz Capital SA) 6,51% 2022	2.760	1,22	
\$2.000.000 Guatemala (Republic of) 4,5% 2026	2.030	0,90	
\$900.000 Guatemala (Republic of) 8,125% 2034	1.171	0,52	
\$3.500.000 Hungarian Import-Export Bank 4% 2020	3.563	1,58	
HUF900.000.000 Hungary (Republic of) 7% 2022	3.935	1,74	
\$3.000.000 Indonesia (Republic of) 4,35% 2024	3.102	1,38	
IDR57.500.000.000 Indonesia (Republic of) 8,375% 2024	4.571	2,03	
\$2.200.000 InRetail Consumer 5,25% 2021	2.244	0,99	
\$2.500.000 Jordan (Kingdom of) 6,125% 2026	2.644	1,17	

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at 30 June Holding	2016 \$'000	2016 %	2015 %	
'BB' credit rated bonds (continued)				
COP1.370.000 KazAgro 3,255% 2019	1.458	0,65		
COP2.427.000 Macedonia (Govt. of) 3,975% 2021	2.631	1,17		
\$1.601.000 Metalsa 4,9% 2023	1.550	0,69		
\$2.000.000 Minerva Luxembourg SA 7,75% 2023	2.036	0,90		
\$4.250.000 Paraguay (Republic of) 4,625% 2023	4.420	1,96		
\$2.500.000 Vietnam (Republic of) 4,8% 2024	2.578	1,14		
'B' credit rated bonds				
	47.403	21,00	18,32	
\$2.250.000 Agrokro D.D 8,875% 2020	2.340	1,04		
\$30.000.000 Argentina (Republic of) FRN 2017	2.026	0,90		
\$2.000.000 Buenos Aires (Province of) 9,95% 2021	2.234	0,99		
\$2.000.000 Cameroon (Republic of) 9,5% 2025	2.015	0,89		
\$2.400.000 Cemex 7,75% 2026	2.510	1,11		
COP1.345.000 Cirsa Funding Luxembourg 5,75% 2021	1.537	0,68		
\$2.200.000 Cordoba (Province of) 7,125% 2021	2.203	0,98		
\$2.800.000 Ecuador (Republic of) 10,5% 2020	2.761	1,22		
\$1.700.000 Eldorado International Finance 8,625% 2021	1.636	0,72		
\$1.600.000 GTH Finance B.V 6,25% 2020	1.657	0,73		
\$2.700.000 Honduras (Republic of) 7,5% 2024	2.929	1,30		
\$2.000.000 Jamaica (Govt. of) 6,75% 2028	2.095	0,93		
\$1.900.000 Kenya (Republic of) 6,875% 2024	1.751	0,78		
\$1.750.000 MHP 8,25% 2020	1.634	0,72		
\$1.828.125 Northern Lights III 7% 2019	1.831	0,81		
\$2.000.000 Pakistan (Islamic Republic of) 7,875% 2036	1.786	0,79		
\$2.500.000 Rwanda (Republic of) 6,625% 2023	2.412	1,07		
\$1.700.000 Sable International 6,875% 2022	1.697	0,75		
\$3.000.000 Sri Lanka (Republic of) 6,85% 2025	2.929	1,30		
\$3.500.000 Ukraine (Republic of) 7,75% 2019	3.447	1,53		
\$2.250.000 VTR Finance 6,875% 2024	2.245	0,99		
\$2.000.000 Zambia (Republic of) 8,97% 2027	1.728	0,77		
'CCC' credit rated bonds				
	3.358	1,49	4,55	
\$5.000.000 Petróleos de Venezuela 6% 2024	1.753	0,78		
\$4.000.000 Venezuela (Republic of) 7% 2038	1.605	0,71		
'CC' credit rated bonds				
	0,00	0,00	1,01	
'D' credit rated bonds				
	285	0,13	0,00	
\$1.900.000 OI SA 5,75% 2022	285	0,13		
Bonds with no credit rating				
	38.369	17,00	18,80	
\$3.000.000 Armenia (Republic of) 7,15% 2025	3.045	1,35		
US\$ 2.500.000 Banque Centrale De Tunisie 4,5% 2020	2.771	1,23		
\$1.937.000 BBVA Bancomer 6,75% 2022	2.150	0,95		
\$2.000.000 Bharat Petroleum 4% 2025	2.035	0,90		
\$1.930.500 Cote d'Ivoire (Republic of) Var. Rate 2032 (2,5%)	1.793	0,79		
\$2.300.000 DP World 6,85% 2037	2.515	1,11		
£1.400.000 Dubai Holding Commercial Operations 6% 2017	1.913	0,85		
\$2.500.000 Fibra Uno Administracion 5,25% 2026	2.527	1,12		
\$1.950.000 Gabonese Republic 6,375% 2024	1.678	0,74		
\$2.000.000 Globo Comunicação e Participações 4,843% 2025	1.915	0,85		
\$668.000 Petroleum Co of Trinidad & Tobago 9,75% 2019	716	0,32		
INR350.000.000 Rural Electrification 9,04% 2019	5.346	2,37		

Portfolio statement (continued)

as at 30 June Holding	2016 \$'000	2016 %	2015 %
Bonds with no credit rating (continued)			
\$4.000.000 Southern Gas Corridor 6,875% 2026	4.306	1,91	
\$1.777.778 Tanzania (United Republic of) FRN 2020	1.810	0,80	
\$2.000.000 Türkiye Cumhuriyeti Ziraat Bankasi 4,75% 2021	2.031	0,90	
\$1.700.000 YPF Sociedad Anónima 8,5% 2021	1.818	0,81	
Forward currency contracts			
	433	0,19	(0,15)
€(13.350.000) Sold for \$15.191.606 (expires 27.07.16)	301	0,13	
£(1.430.000) Sold for \$2.061.481 (expires 27.07.16)	132	0,06	
Portfolio of investments			
	215.323	95,41	93,20
'AAA' rated money market funds [a]			
	8.986	3,98	0,00
8.986.000 Northern Trust Global Fund - US dollar	8.986	3,98	
Forward currency contracts for share class hedging			
	(29)	(0,01)	0,00
CHF144.745 Bought for \$146.630 (expires 27.07.16)	2	0,00	
€8.587.830 Bought for \$9.605.717 (expires 27.07.16)	(27)	(0,01)	
£41.505 Bought for \$59.981 (expires 27.07.16)	(4)	0,00	
CHF(2.707) Sold for \$2.741 (expires 27.07.16)	0	0,00	
£(455) Sold for \$657 (expires 27.07.16)	0	0,00	
Total portfolio (notes 2c & 2d on page 6)			
	224.280	99,38	93,20
Net other assets / (liabilities)			
	1.410	0,62	6,80
Net assets attributable to shareholders			
	225.690	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 Emerging Markets 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 (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2016 \$'000	2015 \$'000	2014 \$'000
Fund net asset value (NAV)	225.690	190.905	50.415

Share class performance since launch

To give an indication of how the fund has performed since launch, the graph 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 19 April 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Emerging Markets Bond Fund

Financial highlights

Fund performance

To give an indication of the long-term 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 01.07.15 % ^[a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Euro^[b]				
Class 'A'	+6,3	+11,2	n/a	+9,3 ^[c]
Class 'A-H'	+5,6	n/a	n/a	+2,1 ^[d]
Class 'B'	+5,8	n/a	n/a	+11,0 ^[e]
Class 'B-H'	n/a	n/a	n/a	+7,6 ^[f]
Class 'C'	+6,9	+11,8	n/a	+9,8 ^[c]
Class 'C-H'	+6,0	n/a	n/a	+2,4 ^[d]
Sterling^[g]				
Class 'A'	+24,3	+9,4	+7,8	+9,1 ^[h]
Class 'I'	+24,8	+9,9	n/a	+9,4 ^[c]
Class 'I-H'	n/a	n/a	n/a	+6,2 ^[i]
Class 'R'	+24,6	+9,6	n/a	+8,0 ^[j]
Class 'X'	+24,3	+9,4	+7,8	+8,6 ^[k]
Swiss franc^[b]				
Class 'A'	+10,1	n/a	n/a	+6,8 ^[e]
Class 'A-H'	n/a	n/a	n/a	+4,9 ^[i]
Class 'C'	+10,7	n/a	n/a	+7,3 ^[e]
Class 'C-H'	n/a	n/a	n/a	+5,4 ^[i]
US dollar^[b]				
Class 'A'	+6,5	+5,5	n/a	+5,0 ^[c]
Class 'C'	+7,0	+6,0	n/a	+5,6 ^[c]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 19 April 2012, the launch date of the share class.

[d] 10 November 2014, the launch date of the share class.

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

[f] 11 September 2015, the launch date of the share class. Absolute basis.

[g] Price to price with net income reinvested.

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

[i] 24 July 2015, the launch date of the share class. Absolute basis.

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

[k] 15 October 1999, the end of the initial offer period of the predecessor unit trust.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

M&G Emerging Markets Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs (continued)

Portfolio transaction costs (continued)

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table shows the average portfolio dealing spread.

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

Portfolio transaction costs				
as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,80	0,97	0,76	0,84

^[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' Income share performance

The share class was launched on 12 July 2013.

for the year to 30 June	2016	2015	2014
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1.239,75	1.077,38	1.061,62
Return before operating charges and after direct portfolio transaction costs	97,85	235,53	69,09
Operating charges	(17,91)	(17,79)	(16,74)
Return after operating charges	79,94	217,74	52,35
Distributions	(60,11)	(55,37)	(36,59)
Closing NAV	1.259,58	1.239,75	1.077,38

Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,03

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,44	1,44	1,57
Return after operating charges	+6,45	+20,21	+4,93
Distribution yield	4,59	5,20	4,32
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information			
Closing NAV (\$'000)	4.982	4.049	685
Closing NAV percentage of total fund NAV (%)	2,21	2,12	1,36
Number of shares	354.898	292.104	46.600
Highest share price (Euro ¢)	1.314,17	1.377,27	1.118,67
Lowest share price (Euro ¢)	1.156,11	1.082,18	1.004,71

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.342,93	1.115,26	1.037,86
Return before operating charges and after direct portfolio transaction costs	107,73	246,55	94,44
Operating charges	(19,43)	(18,88)	(17,04)
Return after operating charges	88,30	227,67	77,40
Closing NAV	1.431,23	1.342,93	1.115,26
Retained distributions	65,77	58,11	36,73
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,03
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,45	1,44	1,57
Return after operating charges	+6,58	+20,41	+7,46
Distribution yield	4,58	5,20	4,34
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	10.627	27.133	3.530
Closing NAV percentage of total fund NAV (%)	4,71	14,21	7,00
Number of shares	666.181	1.807.147	231.900
Highest share price (Euro ¢)	1.444,60	1.456,38	1.135,31
Lowest share price (Euro ¢)	1.267,53	1.120,28	1.004,62

Euro Class 'A-H' Income share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	924,35	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	60,13	(22,90)	n/a
Operating charges	(13,48)	(8,77)	n/a
Return after operating charges	46,65	(31,67)	n/a
Distributions	(43,99)	(43,98)	n/a
Closing NAV	927,01	924,35	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,00	0,01	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,46	1,46	n/a
Return after operating charges	+5,05	-3,17	n/a
Distribution yield	4,62	5,23	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	854	237	n/a
Closing NAV percentage of total fund NAV (%)	0,38	0,12	n/a
Number of shares	82.630	22.939	n/a
Highest share price (Euro ¢)	956,52	1.000,11	n/a
Lowest share price (Euro ¢)	861,67	930,43	n/a

Euro Class 'A-H' Accumulation share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	970,39	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	66,49	(20,62)	n/a
Operating charges	(14,61)	(8,99)	n/a
Return after operating charges	51,88	(29,61)	n/a
Closing NAV	1.022,27	970,39	n/a
Retained distributions	46,83	44,57	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,00	0,01	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,45	1,46	n/a
Return after operating charges	+5,35	-2,96	n/a
Distribution yield	4,62	5,23	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	4.128	64	n/a
Closing NAV percentage of total fund NAV (%)	1,83	0,03	n/a
Number of shares	362.325	6.000	n/a
Highest share price (Euro ¢)	1.030,35	1.000,45	n/a
Lowest share price (Euro ¢)	927,51	933,49	n/a

Euro Class 'B' Income share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	98,43	n/a	n/a
Operating charges	(15,75)	n/a	n/a
Return after operating charges	82,68	n/a	n/a
Distributions	(44,52)	n/a	n/a
Closing NAV	1.038,16	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	1,95	n/a	n/a
Return after operating charges	+8,27	n/a	n/a
Distribution yield	4,10	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	127	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,06	n/a	n/a
Number of shares	11.000	n/a	n/a
Highest share price (Euro ¢)	1.081,20	n/a	n/a
Lowest share price (Euro ¢)	952,40	n/a	n/a

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Euro Class 'B' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.263,21	1.054,12	1.000,00
Return before operating charges and after direct portfolio transaction costs	101,05	232,97	74,85
Operating charges	(24,74)	(23,88)	(20,73)
Return after operating charges	76,31	209,09	54,12
Closing NAV	1.339,52	1.263,21	1.054,12
Retained distributions	55,39	48,65	30,18

Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	0,02
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,02

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,94	1,94	2,07
Return after operating charges	+6,04	+19,84	+5,41
Distribution yield	4,10	4,70	3,82
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (\$'000)	2.323	2.434	72
Closing NAV percentage of total fund NAV (%)	1,03	1,28	0,14
Number of shares	155.563	172.333	5.000
Highest share price (Euro ¢)	1.352,25	1.371,33	1.073,38
Lowest share price (Euro ¢)	1.191,32	1.058,88	953,73

Euro Class 'B-H' Income share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	76,82	n/a	n/a
Operating charges	(15,64)	n/a	n/a
Return after operating charges	61,18	n/a	n/a
Distributions	(43,53)	n/a	n/a
Closing NAV	1.017,65	n/a	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	1,96	n/a	n/a
Return after operating charges	+6,12	n/a	n/a
Distribution yield	4,12	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (\$'000)	34	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,02	n/a	n/a
Number of shares	3.005	n/a	n/a
Highest share price (Euro ¢)	1.047,45	n/a	n/a
Lowest share price (Euro ¢)	945,59	n/a	n/a

Euro Class 'B-H' Accumulation share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	78,96	n/a	n/a
Operating charges	(15,91)	n/a	n/a
Return after operating charges	63,05	n/a	n/a
Closing NAV	1.063,05	n/a	n/a
Retained distributions	43,99	n/a	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	1,96	n/a	n/a
Return after operating charges	+6,31	n/a	n/a
Distribution yield	4,12	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (\$'000)	60	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,03	n/a	n/a
Number of shares	5.078	n/a	n/a
Highest share price (Euro ¢)	1.071,45	n/a	n/a
Lowest share price (Euro ¢)	967,26	n/a	n/a

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.298,04	1.151,77	n/a
Return before operating charges and after direct portfolio transaction costs	102,34	222,11	n/a
Operating charges	(12,12)	(10,79)	n/a
Return after operating charges	90,22	211,32	n/a
Distributions	(69,36)	(65,05)	n/a
Closing NAV	1.318,90	1.298,04	n/a

Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,00	0,01	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,94	0,95	n/a
Return after operating charges	+6,95	+18,35	n/a
Distribution yield	5,08	5,69	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (\$'000)	21	181	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,10	n/a
Number of shares	1.434	12.434	n/a
Highest share price (Euro ¢)	1.378,56	1.444,73	n/a
Lowest share price (Euro ¢)	1.211,25	1.151,77	n/a

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.365,07	1.128,00	1.044,03
Return before operating charges and after direct portfolio transaction costs	110,20	248,92	95,07
Operating charges	(12,98)	(11,85)	(11,10)
Return after operating charges	97,22	237,07	83,97
Closing NAV	1.462,29	1.365,07	1.128,00
Retained distributions	74,06	65,20	42,97
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,03
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,94	0,95	1,05
Return after operating charges	+7,12	+21,02	+8,04
Distribution yield	5,08	5,69	4,84
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	4.125	2.144	24
Closing NAV percentage of total fund NAV (%)	1,83	1,12	0,05
Number of shares	253.108	140.483	1.500
Highest share price (Euro ¢)	1.475,88	1.478,75	1.147,92
Lowest share price (Euro ¢)	1.289,37	1.133,03	1.011,80

Euro Class 'C-H' Income share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	921,44	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	59,57	(24,06)	n/a
Operating charges	(8,67)	(5,80)	n/a
Return after operating charges	50,90	(29,86)	n/a
Distributions	(48,83)	(48,70)	n/a
Closing NAV	923,51	921,44	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,00	0,01	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,95	0,97	n/a
Return after operating charges	+5,52	-2,99	n/a
Distribution yield	5,14	5,73	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	10	9	n/a
Closing NAV percentage of total fund NAV (%)	0,00	0,01	n/a
Number of shares	1.000	1.000	n/a
Highest share price (Euro ¢)	955,43	1.000,14	n/a
Lowest share price (Euro ¢)	859,17	928,66	n/a

Euro Class 'C-H' Accumulation share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	971,09	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	65,73	(23,01)	n/a
Operating charges	(9,45)	(5,90)	n/a
Return after operating charges	56,28	(28,91)	n/a
Closing NAV	1.027,37	971,09	n/a
Retained distributions	51,88	49,23	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,00	0,01	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,00	0,01	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,96	0,97	n/a
Return after operating charges	+5,80	-2,89	n/a
Distribution yield	5,12	5,73	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	4.299	11	n/a
Closing NAV percentage of total fund NAV (%)	1,90	0,01	n/a
Number of shares	375.402	1.000	n/a
Highest share price (Euro ¢)	1.035,66	1.000,63	n/a
Lowest share price (Euro ¢)	931,35	933,83	n/a

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	77,62	75,97	78,34
Return before operating charges and after direct portfolio transaction costs	19,30	6,43	1,43
Operating charges	(1,17)	(1,17)	(1,18)
Return after operating charges	18,13	5,26	0,25
Distributions	(4,16)	(3,61)	(2,62)
Closing NAV	91,59	77,62	75,97
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,44	1,45	1,54
Return after operating charges	+23,36	+6,92	+0,32
Distribution yield	4,59	5,18	4,34
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	3.114	3.416	4.428
Closing NAV percentage of total fund NAV (%)	1,38	1,79	8,78
Number of shares	2.520.881	2.801.098	3.421.551
Highest share price (UK p)	95,08	87,17	81,29
Lowest share price (UK p)	74,87	76,08	73,54

M&G Emerging Markets Bond Fund

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Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	158,96	150,03	150,44
Return before operating charges and after direct portfolio transaction costs	40,11	12,70	2,89
Operating charges	(2,41)	(2,33)	(2,27)
Return after operating charges	37,70	10,37	0,62
Distributions	(1,72)	(1,44)	(1,03)
Closing NAV	194,94	158,96	150,03
Retained distributions	6,86	5,76	4,12
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,44	1,45	1,54
Return after operating charges	+23,72	+6,91	+0,41
Distribution yield	4,59	5,18	4,34
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	2,342	4,946	7,008
Closing NAV percentage of total fund NAV (%)	1,04	2,59	13,90
Number of shares	890,630	1,979,716	2,742,287
Highest share price (UK p)	198,50	175,06	156,12
Lowest share price (UK p)	153,28	150,23	142,98

Sterling Class 'I' Income share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	104,02	101,82	104,99
Return before operating charges and after direct portfolio transaction costs	25,89	8,62	1,96
Operating charges	(1,03)	(1,04)	(1,06)
Return after operating charges	24,86	7,58	0,90
Distributions	(6,15)	(5,38)	(4,07)
Closing NAV	122,73	104,02	101,82
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,94	0,95	1,04
Return after operating charges	+23,90	+7,44	+0,86
Distribution yield	5,08	5,69	4,85
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	32,244	21,918	8,506
Closing NAV percentage of total fund NAV (%)	14,29	11,48	16,87
Number of shares	19,477,416	13,408,022	4,903,900
Highest share price (UK p)	127,65	116,94	109,01
Lowest share price (UK p)	100,39	101,96	98,59

Sterling Class 'I' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	115,43	108,51	108,35
Return before operating charges and after direct portfolio transaction costs	29,22	9,20	2,14
Operating charges	(1,16)	(1,12)	(1,13)
Return after operating charges	28,06	8,08	1,01
Distributions	(1,38)	(1,16)	(0,85)
Closing NAV	142,11	115,43	108,51
Retained distributions	5,51	4,63	3,39
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,94	0,95	1,04
Return after operating charges	+24,31	+7,44	+0,93
Distribution yield	5,08	5,69	4,84
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	41,633	23,478	7,550
Closing NAV percentage of total fund NAV (%)	18,45	12,30	14,98
Number of shares	21,719,701	12,942,916	4,084,500
Highest share price (UK p)	144,71	127,01	112,49
Lowest share price (UK p)	111,38	108,65	103,20

Sterling Class 'I-H' Income share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	100,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	6,60	n/a	n/a
Operating charges	(0,88)	n/a	n/a
Return after operating charges	5,72	n/a	n/a
Distributions	(5,37)	n/a	n/a
Closing NAV	100,35	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	0,96	n/a	n/a
Return after operating charges	+5,72	n/a	n/a
Distribution yield	5,34	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	27	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,01	n/a	n/a
Number of shares	20,000	n/a	n/a
Highest share price (UK p)	103,33	n/a	n/a
Lowest share price (UK p)	92,57	n/a	n/a

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'I-H' Accumulation share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	100,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	6,81	n/a	n/a
Operating charges	(0,89)	n/a	n/a
Return after operating charges	5,92	n/a	n/a
Distributions	(1,09)	n/a	n/a
Closing NAV	104,83	n/a	n/a
Retained distributions	4,34	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	0,96	n/a	n/a
Return after operating charges	+5,92	n/a	n/a
Distribution yield	5,34	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	28	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,01	n/a	n/a
Number of shares	20,000	n/a	n/a
Highest share price (UK p)	105,65	n/a	n/a
Lowest share price (UK p)	94,65	n/a	n/a

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	97,55	95,48	98,46
Return before operating charges and after direct portfolio transaction costs	24,27	8,10	1,77
Operating charges	(1,22)	(1,23)	(1,24)
Return after operating charges	23,05	6,87	0,53
Distributions	(5,49)	(4,80)	(3,51)
Closing NAV	115,11	97,55	95,48
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,19	1,20	1,29
Return after operating charges	+23,63	+7,20	+0,54
Distribution yield	4,84	5,43	4,59
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	134	101	83
Closing NAV percentage of total fund NAV (%)	0,06	0,05	0,17
Number of shares	86.453	65.731	51.000
Highest share price (UK p)	119,61	109,61	102,16
Lowest share price (UK p)	94,12	95,62	92,45

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	106,96	100,74	100,89
Return before operating charges and after direct portfolio transaction costs	27,05	8,53	1,84
Operating charges	(1,35)	(1,29)	(1,27)
Return after operating charges	25,70	7,24	0,57
Distributions	(1,22)	(1,02)	(0,72)
Closing NAV	131,44	106,96	100,74
Retained distributions	4,88	4,09	2,89
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,19	1,20	1,29
Return after operating charges	+24,03	+7,19	+0,56
Distribution yield	4,84	5,43	4,59
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	30	28	29
Closing NAV percentage of total fund NAV (%)	0,01	0,01	0,06
Number of shares	17,000	17,000	17,000
Highest share price (UK p)	133,85	117,75	104,62
Lowest share price (UK p)	103,17	100,88	95,93

Sterling Class 'X' Income share performance

The share class was launched on 15 October 1999.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	76,48	74,86	77,19
Return before operating charges and after direct portfolio transaction costs	19,01	6,34	1,42
Operating charges	(1,16)	(1,16)	(1,16)
Return after operating charges	17,85	5,18	0,26
Distributions	(4,09)	(3,56)	(2,59)
Closing NAV	90,24	76,48	74,86
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,44	1,45	1,54
Return after operating charges	+23,34	+6,92	+0,34
Distribution yield	4,59	5,19	4,34
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	9,281	9,317	10,422
Closing NAV percentage of total fund NAV (%)	4,11	4,88	20,67
Number of shares	7.624.722	7.752.294	8.171.583
Highest share price (UK p)	93,68	85,89	80,11
Lowest share price (UK p)	73,77	74,96	72,47

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 October 1999.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	159,32	150,36	150,87
Return before operating charges and after direct portfolio transaction costs	40,22	12,76	2,77
Operating charges	(2,43)	(2,36)	(2,27)
Return after operating charges	37,79	10,40	0,50
Distributions	(1,72)	(1,44)	(1,01)
Closing NAV	195,39	159,32	150,36
Retained distributions	6,89	5,75	4,05
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,44	1,45	1,54
Return after operating charges	+23,72	+6,92	+0,33
Distribution yield	4,59	5,19	4,34
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (\$'000)	91.898	88.402	7.935
Closing NAV percentage of total fund NAV (%)	40,72	46,31	15,74
Number of shares	34.870.263	35.307.897	3.098.334
Highest share price (UK p)	198,97	175,50	156,48
Lowest share price (UK p)	153,67	150,58	143,31

Swiss franc Class 'A' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.075,65	1.044,03	1.000,00
Return before operating charges and after direct portfolio transaction costs	139,78	47,98	59,43
Operating charges	(16,41)	(16,36)	(15,40)
Return after operating charges	123,37	31,62	44,03
Closing NAV	1.199,02	1.075,65	1.044,03
Retained distributions	55,03	49,83	34,71
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,00	0,01	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,03
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,44	1,44	1,55
Return after operating charges	+11,47	+3,03	+4,40
Distribution yield	4,59	5,21	4,33
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (\$'000)	177	156	12
Closing NAV percentage of total fund NAV (%)	0,08	0,08	0,02
Number of shares	14.434	13.434	1.000
Highest share price (Swiss ¢)	1.209,43	1.172,78	1.064,90
Lowest share price (Swiss ¢)	1.057,02	986,43	950,70

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	49,65	n/a	n/a
Operating charges	(13,43)	n/a	n/a
Return after operating charges	36,22	n/a	n/a
Closing NAV	1.036,22	n/a	n/a
Retained distributions	47,50	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	1,46	n/a	n/a
Return after operating charges	+3,62	n/a	n/a
Distribution yield	4,64	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	32	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,01	n/a	n/a
Number of shares	3.000	n/a	n/a
Highest share price (Swiss ¢)	1.044,42	n/a	n/a
Lowest share price (Swiss ¢)	942,88	n/a	n/a

Swiss franc Class 'C' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.086,06	1.048,87	1.000,00
Return before operating charges and after direct portfolio transaction costs	141,63	47,53	59,30
Operating charges	(10,84)	(10,34)	(10,43)
Return after operating charges	130,79	37,19	48,87
Closing NAV	1.216,85	1.086,06	1.048,87
Retained distributions	61,57	55,73	39,47
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,00	0,01	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,03
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,94	0,94	1,05
Return after operating charges	+12,04	+3,55	+4,89
Distribution yield	5,08	5,70	4,83
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	55	16	12
Closing NAV percentage of total fund NAV (%)	0,02	0,01	0,02
Number of shares	4.400	1.400	1.000
Highest share price (Swiss ¢)	1.227,39	1.181,31	1.069,50
Lowest share price (Swiss ¢)	1.068,18	993,73	951,10

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	50,01	n/a	n/a
Operating charges	(8,88)	n/a	n/a
Return after operating charges	41,13	n/a	n/a
Closing NAV	1.041,13	n/a	n/a
Retained distributions	52,53	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	0,96	n/a	n/a
Return after operating charges	+4,11	n/a	n/a
Distribution yield	5,14	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	115	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,05	n/a	n/a
Number of shares	10.747	n/a	n/a
Highest share price (Swiss ¢)	1.049,37	n/a	n/a
Lowest share price (Swiss ¢)	945,28	n/a	n/a

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	1.092,72	1.160,89	n/a
Return before operating charges and after direct portfolio transaction costs	81,90	(2,36)	n/a
Operating charges	(15,70)	(14,98)	n/a
Return after operating charges	66,20	(17,34)	n/a
Distributions	(52,23)	(50,83)	n/a
Closing NAV	1.106,69	1.092,72	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,00	0,01	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,00	0,01	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,44	1,45	n/a
Return after operating charges	+6,06	-1,49	n/a
Distribution yield	4,59	5,21	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	327	176	n/a
Closing NAV percentage of total fund NAV (%)	0,14	0,09	n/a
Number of shares	29.550	16.050	n/a
Highest share price (US ¢)	1.142,21	1.189,96	n/a
Lowest share price (US ¢)	1.022,37	1.096,50	n/a

US dollar Class 'A' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	1.143,30	1.159,22	1.032,68
Return before operating charges and after direct portfolio transaction costs	89,58	1,26	143,72
Operating charges	(16,69)	(17,18)	(17,18)
Return after operating charges	72,89	(15,92)	126,54
Closing NAV	1.216,19	1.143,30	1.159,22
Retained distributions	55,33	51,20	38,27
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,00	0,01	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,03
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,44	1,45	1,57
Return after operating charges	+6,38	-1,37	+12,25
Distribution yield	4,59	5,21	4,30
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	7.637	2.114	107
Closing NAV percentage of total fund NAV (%)	3,38	1,11	0,21
Number of shares	627.984	184.838	9.200
Highest share price (US ¢)	1.224,31	1.189,79	1.170,09
Lowest share price (US ¢)	1.095,80	1.097,56	1.007,28

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	1.108,12	1.176,40	n/a
Return before operating charges and after direct portfolio transaction costs	83,51	(1,36)	n/a
Operating charges	(10,45)	(9,33)	n/a
Return after operating charges	73,06	(10,69)	n/a
Distributions	(58,79)	(57,59)	n/a
Closing NAV	1.122,39	1.108,12	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,00	0,01	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,00	0,01	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,94	0,95	n/a
Return after operating charges	+6,59	-0,91	n/a
Distribution yield	5,08	5,71	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	3.812	5	n/a
Closing NAV percentage of total fund NAV (%)	1,69	0,00	n/a
Number of shares	339.654	425	n/a
Highest share price (US ¢)	1.161,30	1.206,40	n/a
Lowest share price (US ¢)	1.037,16	1.112,87	n/a

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Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June	2016	2015	2014
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1.163,58	1.174,25	1.040,28
Return before operating charges and after direct portfolio transaction costs	89,83	0,20	145,36
Operating charges	(11,08)	(10,87)	(11,39)
Return after operating charges	78,75	(10,67)	133,97
Closing NAV	1.242,33	1.163,58	1.174,25
Retained distributions	62,26	57,59	45,02
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,00	0,01	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,03
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,94	0,95	1,04
Return after operating charges	+6,77	-0,91	+12,88
Distribution yield	5,08	5,71	4,85
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	1.214	570	12
Closing NAV percentage of total fund NAV (%)	0,54	0,30	0,03
Number of shares	97.706	48.978	1.000
Highest share price (US ¢)	1.252,15	1.206,32	1.184,76
Lowest share price (US ¢)	1.118,24	1.114,21	1.015,82

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

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

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Statement of total return

for the year to 30 June	Note	2016		2015	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	2		2,338		(1,296)
Revenue	4	12,176		9,308	
Expenses	5	(2,453)		(2,113) ^[a]	
Net revenue / (expense) before taxation		9,723		7,195	
Taxation	6	(79)		(63)	
Net revenue / (expense) after taxation			9,644		7,132
Total return before distributions			11,982		5,836
Distributions	7		(9,644)		(7,132)
Change in net assets attributable to shareholders from investment activities			2,338		(1,296)

Statement of change in net assets attributable to shareholders

for the year to 30 June		2016		2015	
		\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders					
			190,905		50,415
Amounts received on issue of shares	72,031			196,006 ^[a]	
Amounts paid on cancellation of shares	(46,181)			(56,224) ^[a]	
			25,850		139,782
Dilution adjustments			288		932 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)			2,338		(1,296)
Retained distributions on Accumulation shares			6,309		5,389
Exchange differences resulting from translation to presentational currency			0		(4,307)
Closing net assets attributable to shareholders			225,690		190,905

Balance sheet

as at 30 June	Note	2016	2015
		\$'000	\$'000
Assets			
Fixed assets			
Investments		224,311	178,225
Current assets			
Debtors	8	11,174	4,528
Cash and bank balances	9	449	10,641
Total assets		235,934	193,394
Liabilities			
Investment liabilities		(31)	(294)
Creditors			
Bank overdrafts		(1,608)	0
Distribution payable		(2,052)	(1,523) ^[a]
Other creditors	10	(6,553)	(672) ^[a]
Total liabilities		(10,244)	(2,489)
Net assets attributable to shareholders		225,690	190,905

^[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling \$288,000 (2015: \$932,000) have been reclassified from 'Amounts received on issue of shares' of \$338,000 (2015: \$949,000) and 'Amounts paid on cancellation of shares' of \$(50,000) (2015: \$(17,000)).

Interest payable of \$4,000 (2015: \$2,000) has been reclassified from 'Distributions' into 'Expenses'.

Income tax payable of \$865,000 (2015: \$679,000) has been reclassified from 'Other creditors' into 'Distribution payable'.

Additionally, on 1 July 2015 the fund changed its functional and presentational currency from UK sterling to US dollars to better reflect the currency of its primary economic environment. The results for the current period have therefore been prepared and presented in US dollars. For comparability the results of the prior period have been translated from UK sterling to be presented in US dollars. The change in presentational currency represents a change in accounting policy which has been retrospectively applied.

Assets and liabilities have been translated into US dollars at the closing exchange rates. The impact of the change in presentation to US dollars in both periods was \$nil for all 'Balance sheet' items. The table below shows the net assets attributable to shareholders in both US dollar and UK sterling terms for the current and prior periods:

Net assets attributable to shareholders	\$'000	£'000
30 June 2014	50,415	29,594
30 June 2015	190,905	121,479
30 June 2016	225,690	167,327

All items in the 'Statement of total return' and other changes in net assets attributable to shareholders (changes in net assets) for the current period have been translated into US dollars at the dates of the transactions; and for the prior period these have been translated at the average rate for the period.

A new financial statement line item 'Exchange differences resulting from translation to presentational currency' has been added to the 'Statement of change in net assets attributable to shareholders'.

There is no translation adjustment in the current period, however in the prior period this was \$4,307,000. This adjustment arises because of the different exchange rates used to translate balance sheet items and amounts relating to changes in net assets.

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2 Net capital gains / (losses)

for the year to 30 June	2016 \$'000	2015 \$'000
Non-derivative securities	1.852	(4.267)
Derivative contracts	450	2.873
Currency gains / (losses)	40	104
Transaction charges	(4)	(6)
Net capital gains / (losses)	2.338	(1.296)

3 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 52 and 53.

for the year to 30 June	2016 \$'000	2015 \$'000		
a) Purchases				
Debt securities ^[a]	215.198	284.236		
Total purchases after transaction costs	215.198	284.236		
b) Sales				
Debt securities ^[a]	180.558	145.281		
Total sales after transaction costs	180.558	145.281		
c) Direct portfolio transaction costs	2016 \$'000	% of average NAV	2015 \$'000	% of average NAV
Commissions paid				
Derivatives	0	0,00	1	0,00
Total direct portfolio transaction costs	0		1	
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread ^[b]		0,80		0,97

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

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

4 Revenue

for the year to 30 June	2016 \$'000	2015 \$'000
Bank interest	1	0
Derivative revenue	0	(95)
Interest distributions	16	6
Interest on debt securities	12.159	9.397
Total revenue	12.176	9.308

5 Expenses

for the year to 30 June	2016 \$'000	2015 \$'000
Payable to the ACD or associate		
Annual management charge	2.079	1.810
Administration charge	288	233
Share class hedging charge	1	0
	2.368	2.043
Payable to the Depository or associate		
Depository's charge (including VAT)	17	14
Other expenses		
Audit fee (including VAT)	15	11
Interest payable	4	2
Legal fees	3	0
Regulatory fees	0	5
Safe custody charge	44	33
Tax fees (including VAT) ^[a]	2	5
	68	56
Total expenses	2.453	2.113

^[a] Fees of \$2.000 (2015: \$5.000) paid to overseas firms affiliated with Ernst & Young LLP.

6 Taxation

for the year to 30 June	2016 \$'000	2015 \$'000
a) Analysis of charge in the year		
Corporation tax	16	13
Withholding tax	79	52
Current double taxation relief	(16)	(13)
Prior year adjustment	0	11
Total taxation	79	63
b) Factors affecting taxation charge for the year		
Net revenue before taxation	9.723	7.195
Corporation tax at 20%	1.945	1.439
Effects of:		
Interest distributions	(1.929)	(1.426)
Withholding tax	79	52
Total double taxation relief	(16)	(13)
Prior year adjustment	0	11
Total tax charge (note 6a)	79	63
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	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 (2015: 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 where applicable.

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7 Distributions

for the year to 30 June	2016		2015	
	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Interest distributions				
Interim	1.007	2.814	500	2.269
Final	1.188	3.495	846	3.120
Total net distributions		8.504		6.735
Income tax deducted at source		1.626		1.204
Interest distributions		10.130		7.939
Income deducted on cancellation of shares		490		662
Income received on issue of shares		(976)		(1.469)
Distributions		9.644		7.132

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

8 Debtors

as at 30 June	2016 \$'000	2015 \$'000
Amounts receivable on issues of shares	2.314	968
Currency deals outstanding	1.177	332
Debt security interest receivable	3.774	3.228
Distributions receivable	3	0
Sales awaiting settlement	3.906	0
Total debtors	11.174	4.528

9 Cash and bank balances

as at 30 June	2016 \$'000	2015 \$'000
Amounts held at futures clearing houses and brokers	0	390
Cash held as bank balances	449	10.251
Total cash and bank balances	449	10.641

10 Other creditors

as at 30 June	2016 \$'000	2015 \$'000
ACD's annual management charge payable	65	47
Administration charge payable	9	6
Amounts payable on cancellation of shares	438	272
Currency deals outstanding	1.180	330
Expenses payable	30	17
Purchases awaiting settlement	4.831	0
Total other creditors	6.553	672

11 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: same).

12 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 13 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Euro				
Class 'A' Income (Gross)	292.104	165.796	(103.002)	354.898
Class 'A' Accumulation (Gross)	1.807.147	727.727	(1.868.693)	666.181
Class 'A-H' Income (Gross)	22.939	59.691	0	82.630
Class 'A-H' Accumulation (Gross)	6.000	407.825	(51.500)	362.325
Class 'B' Income (Gross)	0	11.000	0	11.000
Class 'B' Accumulation (Gross)	172.333	53.942	(70.712)	155.563
Class 'B-H' Income (Gross)	0	3.005	0	3.005
Class 'B-H' Accumulation (Gross)	0	5.078	0	5.078
Class 'C' Income (Gross)	12.434	0	(11.000)	1.434
Class 'C' Accumulation (Gross)	140.483	550.976	(438.351)	253.108
Class 'C-H' Income (Gross)	1.000	0	0	1.000
Class 'C-H' Accumulation (Gross)	1.000	419.072	(44.670)	375.402
Sterling				
Class 'A' Income (Net)	2.801.098	478.374	(758.591)	2.520.881
Class 'A' Accumulation (Net)	1.979.716	406.345	(1.495.431)	890.630
Class 'I' Income (Net)	13.408.022	8.307.400	(2.238.006)	19.477.416
Class 'I' Accumulation (Net)	12.942.916	9.483.285	(706.500)	21.719.701
Class 'I-H' Income (Net)	0	20.000	0	20.000
Class 'I-H' Accumulation (Net)	0	20.000	0	20.000
Class 'R' Income (Net)	65.731	54.031	(33.309)	86.453
Class 'R' Accumulation (Net)	17.000	0	0	17.000
Class 'X' Income (Net)	7.752.294	766.683	(894.255)	7.624.722
Class 'X' Accumulation (Net)	35.307.897	195.873	(633.507)	34.870.263
Swiss franc				
Class 'A' Accumulation (Gross)	13.434	1.000	0	14.434
Class 'A-H' Accumulation (Gross)	0	3.000	0	3.000
Class 'C' Accumulation (Gross)	1.400	3.000	0	4.400
Class 'C-H' Accumulation (Gross)	0	13.047	(2.300)	10.747
US dollar				
Class 'A' Income (Gross)	16.050	18.500	(5.000)	29.550
Class 'A' Accumulation (Gross)	184.838	522.214	(79.068)	627.984
Class 'C' Income (Gross)	425	418.495	(79.266)	339.654
Class 'C' Accumulation (Gross)	48.978	58.521	(9.793)	97.706

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13 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'	4,00	n/a	1,25	n/a
Class 'A-H'	4,00	n/a	1,25	[b]
Class 'B'	1,25	n/a	1,75	n/a
Class 'B-H'	1,25	n/a	1,75	[b]
Class 'C'	1,25	n/a	0,75	n/a
Class 'C-H'	1,25	n/a	0,75	[b]
Sterling				
Class 'A'	3,00	n/a	1,25	n/a
Class 'I'	1,00	n/a	0,75	n/a
Class 'I-H'	1,00	n/a	0,75	[b]
Class 'R'	1,00	n/a	1,00	n/a
Class 'X'	nil	4,50 [a]	1,25	n/a
Swiss franc				
Class 'A'	4,00	n/a	1,25	n/a
Class 'A-H'	4,00	n/a	1,25	[b]
Class 'C'	1,25	n/a	0,75	n/a
Class 'C-H'	1,25	n/a	0,75	[b]
US dollar				
Class 'A'	4,00	n/a	1,25	n/a
Class 'C'	1,25	n/a	0,75	n/a

[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

[b] This charge may vary between 0,01% and 0,055%.

14 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 7. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 8 and 10 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 5. Amounts due at the year end to the ACD in respect of the ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 10.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 37,03% (2015: 43,56%) of the fund's shares.

15 Events after the balance sheet date

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

16 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.

Valuation technique	Assets	Liabilities	Assets	Liabilities
	2016 \$'000	2016 \$'000	2015 \$'000	2015 \$'000
Level 1	7.169	0	113.411	0
Level 2	217.142	(31)	0	(187)
Level 3	0	0	0	0
	224.311	(31)	113.411	(187)

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 12 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

17 Risk management policies

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

18 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.

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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 30 June 2016 was 20% (2015: 20%).

The lowest, highest and average utilisation of the VaR limit calculated during the financial years ended 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 %	2015 %
Lowest	5.71	1.79
Highest	10.14	7.59
Average	6.97	5.00

20 Credit risk

as at 30 June	2016 \$'000	2015 \$'000
Investment grade securities	74,104	29,482
Below investment grade securities	102,417	61,080
Unrated securities	38,369	22,849
Other investments	9,390	(187)
Total	224,280	113,224

21 Counterparty exposure

as at 30 June 2016	Credit default swaps \$'000	Forward currency contracts \$'000	Futures \$'000	Collateral held as cash \$'000	Net exposure \$'000
State Street Bank	0	404	0	0	404
Total	0	404	0	0	404

as at 30 June 2015	Credit default swaps \$'000	Forward currency contracts \$'000	Futures \$'000	Collateral held as cash \$'000	Net exposure \$'000
JPMorgan	0	0	0	(389)	(389)
State Street Bank	0	(187)	0	0	(187)
Total	0	(187)	0	(389)	(576)

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 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 \$'000	2016 %	2015 \$'000	2015 %
Lowest	134,469	110	14,468	48
Highest	202,923	147	146,911	143
Average	159,950	123	117,200	116

23 Interest distribution tables

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

Half yearly distribution periods				
	Start	End	Xd	Payment
Interim	01.07.15	31.12.15	04.01.16	29.02.16
Final	01.01.16	30.06.16	01.07.16	31.08.16

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' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equal- isation 2016	Distribution 2016		Distribution 2015	
	€	€	€	€	€	€	€	€
Group 1								
Interim	29,8640	-	29,8640	-	29,8640	25,1115		
Final	30,2430	-	30,2430	-	30,2430	30,2580		
Group 2								
Interim	13,2058	-	13,2058	16,6582	29,8640	25,1115		
Final	10,0642	-	10,0642	20,1788	30,2430	30,2580		

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23 Interest distribution tables (continued)

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	32,2603	-	32,2603	-	32,2603	26,1048
Final	33,5138	-	33,5138	-	33,5138	32,0015
Group 2						
Interim	25,4626	-	25,4626	6,7977	32,2603	26,1048
Final	8,9987	-	8,9987	24,5151	33,5138	32,0015

Euro Class 'A-H' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	21,9897	-	21,9897	-	21,9897	21,0380
Final	21,9970	-	21,9970	-	21,9970	22,9390
Group 2						
Interim	18,4515	-	18,4515	3,5382	21,9897	21,0380
Final	5,9480	-	5,9480	16,0490	21,9970	22,9390

Euro Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	23,0825	-	23,0825	-	23,0825	21,1180
Final	23,7478	-	23,7478	-	23,7478	23,4475
Group 2						
Interim	21,0789	-	21,0789	2,0036	23,0825	21,1180
Final	12,9034	-	12,9034	10,8444	23,7478	23,4475

Euro Class 'B' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	22,1913	-	22,1913	-	22,1913	n/a
Final	22,3334	-	22,3334	-	22,3334	n/a
Group 2						
Interim	22,1913	-	22,1913	0,0000	22,1913	n/a
Final	2,0033	-	2,0033	20,3301	22,3334	n/a

Euro Class 'B' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	27,2359	-	27,2359	-	27,2359	21,6906
Final	28,1519	-	28,1519	-	28,1519	26,9610
Group 2						
Interim	11,4091	-	11,4091	15,8268	27,2359	21,6906
Final	8,4126	-	8,4126	19,7393	28,1519	26,9610

Euro Class 'B-H' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	21,9596	-	21,9596	-	21,9596	n/a
Final	21,5720	-	21,5720	-	21,5720	n/a
Group 2						
Interim	21,9596	-	21,9596	0,0000	21,9596	n/a
Final	21,5720	-	21,5720	0,0000	21,5720	n/a

Euro Class 'B-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	21,9596	-	21,9596	-	21,9596	n/a
Final	22,0331	-	22,0331	-	22,0331	n/a
Group 2						
Interim	21,9596	-	21,9596	0,0000	21,9596	n/a
Final	6,2660	-	6,2660	15,7671	22,0331	n/a

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	34,3677	-	34,3677	-	34,3677	29,1957
Final	34,9923	-	34,9923	-	34,9923	35,8526
Group 2						
Interim	29,0217	-	29,0217	5,3460	34,3677	29,1957
Final	34,9923	-	34,9923	0,0000	34,9923	35,8526

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	36,3405	-	36,3405	-	36,3405	29,1957
Final	37,7216	-	37,7216	-	37,7216	36,0081
Group 2						
Interim	22,3010	-	22,3010	14,0395	36,3405	29,1957
Final	12,1064	-	12,1064	25,6152	37,7216	36,0081

Euro Class 'C-H' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	24,4072	-	24,4072	-	24,4072	23,3189
Final	24,4260	-	24,4260	-	24,4260	25,3860
Group 2						
Interim	24,4072	-	24,4072	0,0000	24,4072	23,3189
Final	24,4260	-	24,4260	0,0000	24,4260	25,3860

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23 Interest distribution tables (continued)

Euro Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	25,6620	-	25,6620	-	25,6620	23,3189
Final	26,2210	-	26,2210	-	26,2210	25,9109
Group 2						
Interim	8,1761	-	8,1761	17,4859	25,6620	23,3189
Final	6,8485	-	6,8485	19,3725	26,2210	25,9109

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	1,9325	0,3865	1,5460	-	1,5460	1,3564
Final	2,2230	0,4446	1,7784	-	1,7784	1,5336
Group 2						
Interim	1,2268	0,2454	0,9814	0,5646	1,5460	1,3564
Final	0,9455	0,1891	0,7564	1,0220	1,7784	1,5336

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	3,9480	0,7896	3,1584	-	3,1584	2,6792
Final	4,6290	0,9258	3,7032	-	3,7032	3,0820
Group 2						
Interim	1,8186	0,3637	1,4549	1,7035	3,1584	2,6792
Final	3,3350	0,6670	2,6680	1,0352	3,7032	3,0820

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	2,8620	0,5724	2,2896	-	2,2896	2,0424
Final	3,2840	0,6568	2,6272	-	2,6272	2,2592
Group 2						
Interim	1,2641	0,2528	1,0113	1,2783	2,2896	2,0424
Final	1,6313	0,3263	1,3050	1,3222	2,6272	2,2592

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	3,1725	0,6345	2,5380	-	2,5380	2,1780
Final	3,7205	0,7441	2,9764	-	2,9764	2,4508
Group 2						
Interim	1,8994	0,3799	1,5195	1,0185	2,5380	2,1780
Final	1,3340	0,2668	1,0672	1,9092	2,9764	2,4508

Sterling Class 'I-H' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	2,6345	0,5269	2,1076	-	2,1076	n/a
Final	2,7360	0,5472	2,1888	-	2,1888	n/a
Group 2						
Interim	2,6345	0,5269	2,1076	0,0000	2,1076	n/a
Final	2,7360	0,5472	2,1888	0,0000	2,1888	n/a

Sterling Class 'I-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	2,6345	0,5269	2,1076	-	2,1076	n/a
Final	2,7940	0,5588	2,2352	-	2,2352	n/a
Group 2						
Interim	2,6345	0,5269	2,1076	0,0000	2,1076	n/a
Final	2,7940	0,5588	2,2352	0,0000	2,2352	n/a

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	2,5580	0,5116	2,0464	-	2,0464	1,8136
Final	2,9350	0,5870	2,3480	-	2,3480	2,0240
Group 2						
Interim	1,0454	0,2091	0,8363	1,2101	2,0464	1,8136
Final	1,4061	0,2812	1,1249	1,2231	2,3480	2,0240

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	2,8060	0,5612	2,2448	-	2,2448	1,9168
Final	3,2880	0,6576	2,6304	-	2,6304	2,1764
Group 2						
Interim	2,8060	0,5612	2,2448	0,0000	2,2448	1,9168
Final	3,2880	0,6576	2,6304	0,0000	2,6304	2,1764

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	1,9055	0,3811	1,5244	-	1,5244	1,3396
Final	2,1885	0,4377	1,7508	-	1,7508	1,5080
Group 2						
Interim	0,9205	0,1841	0,7364	0,7880	1,5244	1,3396
Final	1,2391	0,2478	0,9913	0,7595	1,7508	1,5080

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23 Interest distribution tables (continued)

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	£	£	£	£	£	£
Interim	3,9685	0,7937	3,1748	-	3,1748	2,7024
Final	4,6445	0,9289	3,7156	-	3,7156	3,0488
Group 2						
Interim	1,6449	0,3290	1,3159	1,8589	3,1748	2,7024
Final	2,5564	0,5113	2,0451	1,6705	3,7156	3,0488

Swiss franc Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	26,9620	-	26,9620	-	26,9620	24,1545
Final	28,0728	-	28,0728	-	28,0728	25,6760
Group 2						
Interim	22,7100	-	22,7100	4,2520	26,9620	24,1545
Final	3,7947	-	3,7947	24,2781	28,0728	25,6760

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	23,6584	-	23,6584	-	23,6584	n/a
Final	23,8423	-	23,8423	-	23,8423	n/a
Group 2						
Interim	23,6584	-	23,6584	0,0000	23,6584	n/a
Final	23,8423	-	23,8423	0,0000	23,8423	n/a

Swiss franc Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	30,1743	-	30,1743	-	30,1743	26,9749
Final	31,3927	-	31,3927	-	31,3927	28,7557
Group 2						
Interim	25,2734	-	25,2734	4,9009	30,1743	26,9749
Final	31,3927	-	31,3927	0,0000	31,3927	28,7557

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	26,1176	-	26,1176	-	26,1176	n/a
Final	26,4129	-	26,4129	-	26,4129	n/a
Group 2						
Interim	7,9619	-	7,9619	18,1557	26,1176	n/a
Final	16,0492	-	16,0492	10,3637	26,4129	n/a

US dollar Class 'A' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	25,6735	-	25,6735	-	25,6735	23,9816
Final	26,5567	-	26,5567	-	26,5567	26,8461
Group 2						
Interim	5,0167	-	5,0167	20,6568	25,6735	23,9816
Final	5,6344	-	5,6344	20,9223	26,5567	26,8461

US dollar Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	26,8394	-	26,8394	-	26,8394	23,9816
Final	28,4933	-	28,4933	-	28,4933	27,2189
Group 2						
Interim	13,8887	-	13,8887	12,9507	26,8394	23,9816
Final	7,6358	-	7,6358	20,8575	28,4933	27,2189

US dollar Class 'C' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	28,9922	-	28,9922	-	28,9922	27,1158
Final	29,7932	-	29,7932	-	29,7932	30,4790
Group 2						
Interim	13,9034	-	13,9034	15,0888	28,9922	27,1158
Final	10,6508	-	10,6508	19,1424	29,7932	30,4790

US dollar Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	30,2021	-	30,2021	-	30,2021	27,1158
Final	32,0621	-	32,0621	-	32,0621	30,4791
Group 2						
Interim	7,7516	-	7,7516	22,4505	30,2021	27,1158
Final	9,8585	-	9,8585	22,2036	32,0621	30,4791

M&G Emerging Markets Bond Fund

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M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Investment objective

The Fund aims to maximise total return (the combination of income and growth of capital) while generating a higher level of income than that from European government bonds of similar maturities.

Investment policy

The Fund invests mainly in investment grade corporate bonds denominated in any European currency. The Fund may also invest in high yield corporate bonds, government and public securities denominated in any European currency. The Fund's exposure to bonds, government and other public securities 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 which may be denominated in any major global currency. Any non-European currency exposures within the fund may be managed by currency hedges in European currencies.

Investment approach

The fund manager believes that bond returns are driven by a combination of macroeconomic, asset, sector, geography and stock-level factors. A dynamic investment approach is followed, allowing the fund manager to change the blend of duration and credit exposure based on his outlook.

The fund has no benchmark, which allows for a flexible and high-conviction investment approach. A high level of diversification, across individual issuers, sectors and geographies is an essential part of the investment process.

An in-house team of independent credit analysts assists the fund manager in individual credit selection along with the monitoring of names held by the fund.

Risk profile

The fund invests mainly in investment grade corporate bonds denominated in any European currency. It is primarily subject to the price volatility of the European bond market as well as the performance of individual issuers. It is also influenced by developments in the broader global bond market. In addition, the fund is subject to fluctuations in currency exchange rates.

Up to 30% of the fund may be invested in high yield corporate bonds, government and public securities denominated in any European currency. Some of these securities may be higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

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

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

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



The above number:

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

Investment review

As at 1 July 2016, for the year ended 30 June 2016

Performance against objective

Between 1 July 2015 (the start of the review period) and 1 July 2016, the M&G European Corporate Bond Fund produced positive returns across each of its different share classes.^[a] The fund's sterling share classes delivered markedly higher returns than the euro, Swiss franc, and US dollar share classes. Given that the fund's currency exposure was maintained to the euro throughout the review period, this variance resulted from the significant appreciation of the euro against the British pound over the 12 months. Within the corporate bond markets, positive returns were generally recorded across the main global regions, which helped the performance of all of the fund's share classes. The fund's objective is to maximise total returns (the combination of income and growth of capital) while generating a higher level of income than that from European government bonds of similar maturities.

Investment performance

While some areas of the European economy showed signs of gradually improving during the review period, interest rates and inflation remained low in the region. Relevantly, ongoing weakness in the price of oil and other commodities contributed to subdued inflation, while key monetary policies from the European Central Bank (ECB) held down – and further reduced – interest rates.

Such a backdrop for inflation and interest rates tends to favour sentiment towards bonds. (Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds').

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

While the fund recorded weak performance in the opening months of the review period, European high-quality corporate bonds (which have high credit ratings and are also known as investment grade bonds) and government bonds generally rose going into the final quarter of 2015. A key driver of this performance was the increased likelihood that the ECB would expand its significant economic stimulus programme, part of which involves the use of its own money to buy up bonds in the region. In March 2016, the central bank confirmed that these measures would be extended to include the purchase of certain corporate bonds in the euro area and, in turn, this move proved supportive towards the performance of these assets.

Within the fund's diversified European bond portfolio, we maintained a significant allocation to high-quality corporate bonds throughout the review period, as well as holding investments in key areas of the government bond markets, such as in Germany. This positioning contributed to the portfolio's generation of a positive return in the 12-month period as both these areas of the market registered gains.

We also held an exposure to high yield bonds. (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.) However, the performance of these assets often trailed their investment grade and government bond counterparts, which partly reflected the tendency of high yield bonds to be more sensitive to the economic growth outlook.

As the review period progressed, this outlook was increasingly seen by investors as weakening against factors such as China's economic deceleration and the ongoing downturn in the oil and commodity industries. In addition, in the final month of the period, the UK held an 'In/Out' referendum regarding its membership of the European Union (EU). The vote produced an unexpected 'leave' result, which most economists expect to lead to reduced economic growth, not only in the UK but also in the EU.

However, among the knock-on effects of the referendum, government bonds in mainstream markets such as Germany and the US were favoured by investors for their 'safe-haven' status during times of uncertainty. Elsewhere in the post-referendum environment, European investment grade corporate bonds held up relatively well amid more uncertain market conditions as the ECB's bond-buying activity appeared to continue supporting their performance.

Investment activities

We retained a diversified portfolio of European corporate bonds during the review period, believing that a number of factors would benefit the performance of these assets.

Relevantly, for example, the ECB's economic stimulus programme pushed government bond yields further downwards, with many segments yielding close to zero or even being negative. (Bond yields refer to the interest received from a fixed interest security, which is

usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.) The ECB's expanded measures, announced in March, also cut interest rates on cash deposits further into negative territory. Against this background, fixed income investors in the region were left with limited alternatives to earn positive yields elsewhere in the market, with corporate bonds being one area that could offer this attraction.

Our preferred areas for investment in the fund included certain bonds from banks in the region, while we also maintained a large allocation to insurance groups. In our view, the creditworthiness of these financial companies has significantly improved in recent years and their valuations looked appealing compared to other industry sectors. Within the fund's transaction activity, holdings were added from Bank of Ireland, Germany's Commerzbank and Spain's Santander.

Among other industries, the fund's transactions included buying bonds from DH Europe, a subsidiary of medical and technology supplies group Danaher. The investment was added via a new issue of bonds from the company that we felt were attractively priced. Elsewhere, we invested in euro-denominated bonds from Apple, the US multinational technology company. Within the fund's selling activity, we took profits on some small portfolio holdings that had performed well, including bonds from pharmaceuticals supplier Merck and packaging company Ardagh.

In the run-up to the UK's EU referendum, steps were taken to adjust some positions in the portfolio as we considered that the market was underestimating the possibility of a 'leave' outcome to the vote. These measures included lowering the fund's exposure to euro-denominated bonds from UK issuers, with sales that included bonds from Royal Bank of Scotland, Imperial Brands and advertising agency WPP. Among purchases, meanwhile, our focus before the referendum was on particularly high-quality bond issuers such as pharmaceuticals company Johnson & Johnson and technology group Microsoft.

Outlook

The UK's referendum result, and its global implications, remained a key theme in financial markets as the review period drew to a close. While a sharp fall in sterling was among the main headlines, the euro also weakened against currencies such as the US dollar in the aftermath of the vote as investors assessed the knock-on effects for the eurozone as well.

Importantly, for example, the referendum result has increased the uncertainty of how the wider EU project will look over the next few years. Also relevantly, lower UK growth is likely to have some dampening effect on the performance of the European economy.

Against these considerations, we continue to believe that the backdrop of the ECB's expanded economic stimulus programme should support the relative performance of European corporate bonds. Also relevantly, we felt that on a long-term perspective, these assets offered decent relative value in the pre-referendum market environment. On a selective basis, therefore, we believe that valuations continue to look appealing after the post-referendum market weakness. Given this background, we will be on the lookout for buying opportunities in areas where we believe market corrections have been excessive.

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Investment review

Outlook (continued)

In terms of the fund's positioning at the end of the period, we continued to prefer holding a diversified portfolio of European corporate bonds, in addition to keeping an allocation to government bonds of just over 10%. Among industry sectors, our preferred areas included financial groups, healthcare and media companies, while we were less favourable towards the utility and auto industries. As always, we will continue to focus on careful and thorough company research to seek the most attractive investment opportunities for the fund.

Stefan Isaacs

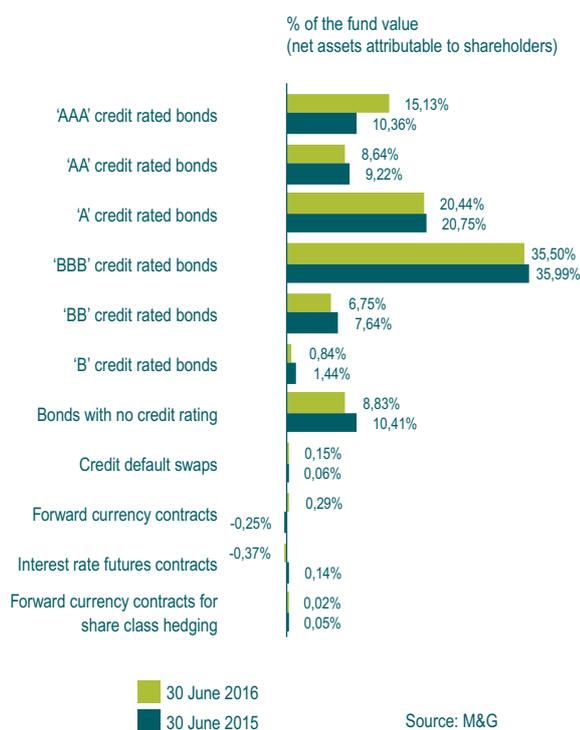
Fund manager

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

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

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

Classification of investments



Investments

Portfolio statement

as at 30 June Holding	2016 €'000	2016 %	2015 %
Debt securities	2.512.579	96,13	95,81
'AAA' credit rated bonds	395.419	15,13	10,36
€5.000.000 Danske Bank 3,75% 2022	6.111	0,23	
€10.460.000 Germany (Federal Republic of) 0,1% IL 2026	11.649	0,45	
€26.000.000 Germany (Federal Republic of) 0,50% 2025	27.686	1,06	
€42.500.000 Germany (Federal Republic of) 1% 2024	47.049	1,80	
€30.000.000 Germany (Federal Republic of) 1,75% IL 2020	36.270	1,39	
€43.570.000 Germany (Federal Republic of) 3,25% 2020	49.600	1,90	
€72.500.000 Germany (Federal Republic of) 3,75% 2019	80.569	3,08	
€9.000.000 Germany (Federal Republic of) 4,25% 2017	9.438	0,36	
€8.000.000 Germany (Federal Republic of) 4,75% 2034	14.553	0,56	
€3.200.000 Germany (Federal Republic of) 5,5% 2031	5.730	0,22	
€7.300.000 Johnson & Johnson 0,25% 2022	7.398	0,28	
€25.000.000 Johnson & Johnson 0,65% 2024	25.528	0,98	
€18.000.000 Johnson & Johnson 4,75% 2019	20.912	0,80	
€10.000.000 Johnson & Johnson 5,5% 2024	15.724	0,60	
€10.000.000 Microsoft 2,125% 2021	11.022	0,42	
€4.639.000 Microsoft 2,625% 2033	5.606	0,21	
€5.000.000 Microsoft 3,125% 2028	6.234	0,24	
£4.445.863 Slate FRN 2052	5.332	0,20	
£3.296.581 Trinity Square FRN 2051	3.896	0,15	
€5.000.000 Wellcome Trust 1,125% 2027	5.112	0,20	
'AA' credit rated bonds	225.758	8,64	9,22
€5.000.000 3M Company 0,95% 2023	5.172	0,20	
€9.200.000 3M Company 1,5% 2026	9.860	0,38	
€10.000.000 Apple 1% 2022	10.407	0,40	
€10.000.000 Apple 1,625% 2026	10.721	0,41	
€2.500.000 Apple 2% 2027	2.781	0,11	
€33.000.000 Berkshire Hathaway Finance 1,125% 2027	32.436	1,24	
€14.400.000 Berkshire Hathaway Finance 1,625% 2035	14.066	0,54	
€5.000.000 Coca-Cola 0,75% 2023	5.094	0,20	
€19.048.000 Coca-Cola 1,125% 2027	19.356	0,74	
€5.000.000 Deutsche Bahn Finance 4,375% 2021	6.136	0,23	
€5.000.000 Deutsche Bahn Finance 4,875% 2019	5.675	0,22	
€2.000.000 GE Capital European Funding 3,625% 2017	2.071	0,08	
€1.500.000 GE Capital European Funding 4,625% 2027	2.089	0,08	
€1.500.000 GE Capital European Funding 6,025% 2038	2.720	0,10	
€14.643.000 General Electric Capital 1,25% 2023	15.412	0,59	
€5.000.000 International Business Machines 1,25% 2023	5.222	0,20	
£1.923.000 MetLife Global Funding 2,625% 2022	2.428	0,09	
£5.000.000 Natixis 5,875% 2020	6.997	0,27	
€15.652.000 Nestlé Finance International 2,125% 2021	17.352	0,66	
€3.000.000 Novartis Finance 0,75% 2016	3.116	0,12	
€6.000.000 Novartis Finance 1,625% 2026	6.629	0,25	
€2.447.022 Paragon Mortgages No.8 FRN 2035 A2B	2.188	0,08	

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
'AA' credit rated bonds (continued)			
€2,500,000 Procter & Gamble 2% 2022	2,768	0,11	
€10,000,000 Roche Finance Europe 0,875% 2025	10,425	0,40	
€3,021,066 Siviglia FRN 2055	2,942	0,11	
€5,000,000 Wal-Mart Stores 1,9% 2022	5,464	0,21	
€11,000,000 Wal-Mart Stores 4,875% 2029	16,231	0,62	
	534,223	20,44	20,75
'A' credit rated bonds			
€2,456,000 Achmea Hypotheekbank 2,75% 2021	2,672	0,10	
€10,000,000 Airbus Group 0,875% 2026	10,104	0,39	
€12,000,000 Allianz Finance II Var. Rate 2041 (5,75%)	13,633	0,52	
€5,000,000 Allianz Var. Rate Perp. (4,75%)	5,361	0,21	
€6,000,000 Anheuser-Busch InBev 0,875% 2022 2	6,145	0,24	
€5,000,000 Anheuser-Busch InBev 1,95% 2021	5,425	0,21	
€3,000,000 Anheuser-Busch InBev 2,7% 2026	3,464	0,13	
€4,176,000 Anheuser-Busch InBev 2,75% 2036	4,788	0,18	
\$10,000,000 Anheuser-Busch InBev 8,2% 2039	14,086	0,54	
€14,000,000 Aon 2,875% 2026	14,921	0,57	
£5,575,000 ASIF III Jersey 5% 2018	7,305	0,28	
€15,000,000 Bankia 4,125% 2036	20,719	0,79	
€5,000,000 BASF Finance Europe 2% 2022	5,566	0,21	
€4,115,000 BAT Holdings 3,125% 2029	4,965	0,19	
€5,000,000 BAT International Finance 4% 2020	5,729	0,22	
£5,000,000 BAT International Finance 7,25% 2024	8,145	0,31	
€4,000,000 Bayer Capital 1,25% 2023	4,197	0,16	
€4,100,000 BG Energy Capital 3,625% 2019	4,533	0,17	
€5,000,000 BHP Billiton Finance 2,25% 2020 2	5,369	0,21	
€5,000,000 BMW 0,125% 2020	5,015	0,19	
€3,000,000 CEZ 4,5% 2020	3,480	0,13	
€2,500,000 CEZ 4,875% 2025	3,247	0,12	
€14,750,000 Cloverie Var. Rate 2039 (7,5%)	17,092	0,65	
€2,500,000 Cloverie Var. Rate 2042 (6,625%)	3,113	0,12	
€7,000,000 DAA Finance 1,554% 2028 2	7,173	0,28	
€7,000,000 DH Europe Finance 1,7% 2022 2	7,445	0,28	
€5,000,000 EDF 4% 2025	6,298	0,24	
€2,500,000 EDF 4,125% 2027	3,205	0,12	
€1,500,000 EDF 6,25% 2021	1,901	0,07	
€2,000,000 Elia System Operator 3,25% 2028	2,458	0,09	
€6,664,000 ELM Var. Rate Perp. (2,6%)	6,063	0,23	
€1,990,000 EnBW International 6,125% 2039	3,413	0,13	
€3,400,000 Enxsis 1,875% 2020	3,680	0,14	
€13,000,000 ENGIE (formerly GDF Suez) 5,95% 2111	22,524	0,86	
€5,000,000 Engie Var. 1,375% 2020	5,275	0,20	
€3,000,000 ESB Finance 2,125% 2027	3,306	0,13	
€5,725,000 Fingrid 3,5% 2024	6,915	0,27	
€3,300,000 GE Capital Trust IV Var. Rate 2066 (4,625%)	3,314	0,13	
€3,000,000 Geberit International 0,688% 2021	3,083	0,12	
€1,050,000 GIE Suez Alliance 5,75% 2023	1,425	0,05	
€10,000,000 Honeywell 0,65% 2020 2	10,136	0,39	
£3,000,000 HSBC Bank Var. Rate 2023 (5%)	3,730	0,14	
€5,000,000 HSBC Holdings 1,5% 2022	5,122	0,20	
€5,000,000 Hutchison Whampoa 1,375% 2021	5,118	0,20	
€5,000,000 Illinois Tool Works 1,75% 2022	5,354	0,20	
€2,200,000 Illinois Tool Works 3% 2034	2,692	0,10	
€10,000,000 JPMorgan Chase 1,375% 2021	10,426	0,40	
€4,925,000 JPMorgan Chase 1,5% 2026 2	5,045	0,19	
€6,857,000 JPMorgan Chase 2,875% 2028	7,934	0,30	

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
'A' credit rated bonds (continued)			
\$5,000,000 Legrande France 8,5% 2025	6,154	0,24	
€2,749,630 Magellan Mortgages No.3 FRN 2058 3A	2,314	0,09	
€3,099,560 Magellan Mortgages No.4 FRN 2059 4A	2,589	0,10	
\$7,311,485 Mitchells & Butlers Finance FRN 2030	5,346	0,20	
£2,000,000 Mitchells & Butlers Finance FRN 2033	1,743	0,07	
€4,000,000 Munich Re Finance Var. Rate 2041 (6%)	4,665	0,18	
€5,000,000 Munich Re Finance Var. Rate 2042 (6,25%)	6,010	0,23	
€2,590,000 PACCAR Financial 0,125% 2019	2,600	0,10	
€9,680,000 Philip Morris International 2,875% 2024	11,114	0,43	
€5,000,000 Philip Morris International 2,875% 2026	5,785	0,22	
€3,000,000 Principal Financial Global Funding II 4,5% 2017	3,070	0,12	
€5,000,000 Rabobank Nederland 4% 2022	5,957	0,23	
€1,800,000 Réseau de Transport d'Électricité 1% 2026 2	1,819	0,07	
€1,606,653 RMAC 2005-Ns1 FRN 2037 A2C	1,439	0,06	
£13,492,933 RMAC 2006-Ns4 FRN 2044 A3A	14,374	0,55	
€5,000,000 Scentre Management 1,5% 2020	5,227	0,20	
€2,400,000 SCOR 3,875% Perp.	2,375	0,09	
€16,548,000 Shell International Finance 1% 2022	17,299	0,66	
€2,500,000 Shell International Finance 4,375% 2018	2,708	0,10	
€20,969,850 Silverback Finance 3,1261% 2037 1A	20,807	0,80	
€7,865,000 Statkraft 2,5% 2022	8,850	0,34	
€3,400,000 Sumitomo Mitsui Banking 2,75% 2023	3,849	0,15	
€5,200,000 TeliaSonera 3% 2027	6,106	0,23	
£5,000,000 Thames Water Utilities Cayman 7,241% 2058	6,616	0,25	
€17,400,000 Total Capital International 1,375% 2025	18,620	0,71	
€9,333,000 Total Var. Rate Perp. (2,25%)	9,006	0,35	
€6,230,000 Vier Gas Transport 3,125% 2023	7,337	0,28	
€2,338,000 Wells Fargo 1,625% 2025	2,455	0,09	
€12,000,000 Wells Fargo 2,25% 2023	13,193	0,51	
€7,000,000 Wells Fargo 2,625% 2022	7,811	0,30	
€5,000,000 Zürcher Kantonalbank Var. Rate 2027 (2,625%)	4,876	0,19	
	927,840	35,50	35,99
'BBB' credit rated bonds			
£2,653,000 AA Bond Company 3,781% 2019	3,269	0,12	
£10,000,000 AA Bond Company 4,2487% 2043	12,527	0,48	
€2,548,000 ABN AMRO Bank 2,875% 2025	2,599	0,10	
€11,000,000 ABN AMRO Bank 6,375% 2021	13,124	0,50	
€2,600,000 ABN AMRO Bank Var. Rate. 2017 (1,429%)	2,561	0,10	
€10,000,000 AG Insurance 3,5% 2047	9,024	0,34	
€5,000,000 AkzoNobel 4% 2018	5,486	0,21	
€14,000,000 Albemarle 1,875% 2021	14,399	0,55	
€6,184,000 América Móvil Var. Rate 2073 (6,375%)	6,929	0,26	
€15,250,000 American International Group Var. Rate 2068 (4,875%)	15,098	0,58	
€6,667,000 AT&T 3,375% 2034	7,757	0,30	
€13,000,000 AT&T 3,55% 2032	15,495	0,59	
£5,000,000 AT&T 5,875% 2017	6,286	0,24	
€5,000,000 Aviva Var. Rate 2043 (6,125%)	5,521	0,21	
€1,210,000 Aviva Var. Rate 2044 (3,875%)	1,159	0,04	
€3,948,000 Aviva Var. Rate 2045 (3,375%)	3,632	0,14	
€6,043,000 AXA Var. Rate 2043 (5,125%)	6,860	0,26	

M&G European Corporate Bond Fund

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Investments

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
€5.772.342 AyT Hipotecario Mixto FRN 2041	5.340	0,20	
€4.375.000 Bank of America 1,375% 2021	4.539	0,17	
€7.000.000 Bank of America 2,375% 2024	7.658	0,29	
\$10.000.000 Bank of America 3,95% 2025	9.086	0,35	
€10.000.000 Bankinter 1,75% 2019	10.369	0,40	
£1.000.000 Barclays Bank 10% 2021	1.497	0,06	
€8.000.000 Barclays Bank 6,625% 2022	9.414	0,36	
€4.118.000 Bayer Var. Rate 2075 (2,375%)	3.909	0,15	
€5.385.000 Bayer Var. Rate 2075 (3%)	5.410	0,21	
€3.200.000 BBVA 3,5% 2024	3.254	0,12	
€5.702.000 BHP Billiton Finance 4,75% 2076	5.973	0,23	
€1.000.000 BNP Paribas 4,875% Perp.	999	0,04	
€5.266.000 BNP Paribas Var. Rate 2026 (2,875%)	5.375	0,21	
3.333.000 Carnival 1,875% 2022	3.469	0,13	
€34.880.000 Channel Link Enterprises Finance FRN 2050	34.008	1,30	
€3.000.000 Citigroup 1,375% 2021	3.111	0,12	
€4.000.000 Citigroup 1,75% 2025	4.144	0,16	
\$5.000.000 Citigroup 3,875% 2025	4.528	0,17	
€9.000.000 Citigroup 5% 2019	10.293	0,39	
€4.091.000 Citycon 3,75% 2020	4.595	0,18	
€10.000.000 Coca-Cola 1,875% 2030	10.056	0,38	
€3.000.000 Coca-Cola Enterprises 2,75% 2026	3.346	0,13	
€5.395.000 Commerzbank 4% 2026	5.517	0,21	
€3.500.000 Commerzbank 7,75% 2021	4.157	0,16	
\$3.000.000 Commerzbank 8,125% 2023	3.112	0,12	
€10.000.000 Crédit Agricole 2,625% 2027	9.903	0,38	
£3.750.000 Credit Suisse Group Funding 3% 2022	4.576	0,17	
€8.000.000 Credit Suisse Var. Rate 2025 (5,75%)	8.390	0,32	
€2.468.000 CRH Finance 3,125% 2023	2.843	0,11	
£2.000.000 Daily Mail & General Trust 6,375% 2027	2.752	0,11	
€3.038.000 Danske Bank 2,75% 2026	3.149	0,12	
£5.350.000 Danske Bank Var. Rate 2021 (5,375%)	6.636	0,25	
€3.000.000 Delta Lloyd Levensverzekering Var. Rate 2042 (9%)	3.384	0,13	
€1.818.000 Deutsche Annington Immobilien 3,625% 2021	2.105	0,08	
€9.100.000 Deutsche Telekom International Finance 5,375% 2021	11.346	0,43	
\$8.000.000 Deutsche Telekom International Finance 8,75% 2030	10.837	0,41	
€5.000.000 Deutsche Telekom International Finance 0,25% 2021	5.025	0,19	
€4.000.000 EnBW Var. Rate 2072 (7,375%)	4.153	0,16	
€5.000.000 ENGIE (formerly GDF Suez) Var. Rate Perp. (3%)	5.123	0,20	
€7.000.000 Eni 3,75% 2025	8.637	0,33	
€4.000.000 Erste Group Bank 7,125% 2022	4.777	0,18	
€3.000.000 EXOR 2,125% 2022	3.106	0,12	
€3.950.000 EXOR 2,5% 2024	4.146	0,16	
€10.000.000 FCE Bank 1,134% 2022	10.021	0,38	
€1.636.000 FCE Bank 1,615% 2023 2	1.665	0,06	
€6.495.789 GAMMA - Sociedade de Titularização de Créditos FRN 2060	5.413	0,21	
€11.251.000 Gelf Bond Issuer 1,75% 2021	11.730	0,45	
€7.909.000 Gelf Bond Issuer 3,125% 2018	8.293	0,32	

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
\$1.000.000 Glencore Canada 5,3% 2042	715	0,03	
€10.000.000 Glencore Finance Europe 1,25% 2021	9.202	0,35	
€50.000 Glencore Finance Europe 5,25% 2017	52	0,00	
€6.000.000 Goldman Sachs Group 1,375% 2022 2	6.139	0,23	
€7.000.000 Goldman Sachs Group 2,625% 2020	7.550	0,29	
€5.000.000 Goldman Sachs Group 4,75% 2021	5.767	0,22	
€7.000.000 Goldman Sachs Group 5,125% 2019	8.033	0,31	
£5.000.000 Heathrow Funding 6,25% 2018	6.578	0,25	
£2.500.000 HSBC Bank Var. Rate Perp. (5,862%)	3.081	0,12	
£4.100.000 HSBC Holdings Var. Rate 2022 (6,375%)	5.136	0,20	
€11.900.000 Iberdrola International 3,5% 2021	13.628	0,52	
£1.600.000 Imperial Tobacco Finance 5,5% 2016	1.966	0,07	
€5.465.000 Infineon Technology 1% 2018	5.546	0,21	
€23.000.000 ING Bank 3,625% 2026	24.473	0,94	
€15.000.000 Intesa Sanpaolo 2% 2021	15.602	0,60	
€3.696.000 Intesa Sanpaolo 4% 2017	3.880	0,15	
\$7.000.000 Intesa Sanpaolo 6,5% 2021	7.086	0,27	
€2.000.000 Kinder Morgan 2,25% 2027	1.830	0,07	
€748.486 Leo-Mesdag FRN 2019	743	0,03	
€1.980.000 Liberty Mutual Group 2,75% 2026	2.014	0,08	
£4.000.000 Lloyds Bank (formerly Lloyds TSB Bank) 7,625% 2025	5.871	0,22	
€5.000.000 Lloyds Bank (formerly Lloyds TSB Bank) Var. Rate 2021 (11,875%)	5.216	0,20	
€1.575.000 Lloyds Bank (formerly Lloyds TSB Bank) Var. Rate 2024 (10,375%)	1.895	0,07	
€10.000.000 LYB International Finance 1,875% 2022	10.452	0,40	
€5.000.000 McDonalds 0,5% 2021	5.051	0,19	
€3.000.000 McDonalds 2% 2023	3.263	0,12	
€2.000.000 McDonalds 2,375% 2024	2.222	0,09	
€4.400.000 McDonalds 2,875% 2025	5.124	0,20	
€3.000.000 Merck KGaA 2,625% 2074	3.043	0,12	
€5.414.000 Mondelēz International 2,375% 2035	5.554	0,21	
€7.500.000 Morgan Stanley 1,75% 2025	7.651	0,29	
€3.200.000 Morgan Stanley 1,875% 2023	3.343	0,13	
€5.100.000 Morgan Stanley 5,375% 2020	6.084	0,23	
€5.000.000 Nationwide Building Society 4,125% 2023	5.140	0,20	
€4.000.000 NET4GAS 2,5% 2021	4.184	0,16	
€6.765.000 NET4GAS 2,5% 2021	7.076	0,27	
€3.048.000 NGG Finance Var. Rate 2076 (4,25%)	3.235	0,12	
€9.000.000 Nielsen Norman Group Var. Rate Perp. (4,5%)	8.640	0,33	
€1.587.000 Orange 8,125% 2033	3.032	0,12	
€4.038.000 Orange Var. Rate Perp. (5%)	4.197	0,16	
€10.955.000 Origin Energy Finance 2,5% 2020	11.181	0,43	
€3.375.000 Origin Energy Finance 2,875% 2019	3.500	0,13	
€5.689.000 Petróleos Mexicanos 2,75% 2027	4.739	0,18	
£3.000.000 Petróleos Mexicanos 8,25% 2022	4.201	0,16	
€7.458.000 Prologis 3% 2022	8.249	0,32	
€1.677.000 Prologis 3,375% 2024	1.930	0,07	
€9.000.000 Prologis International Funding II 2,75% 2018	9.511	0,36	
€1.158.000 Prologis International Funding II 2,875% 2022	1.279	0,05	
€10.800.000 Rabobank Nederland Var. Rate 2026 (2,5%)	10.957	0,42	
€3.022.000 Royal Mail 2,375% 2024	3.268	0,13	
€8.000.000 Ryanair 1,875% 2021	8.455	0,32	
€15.000.000 Santander Issuances 2,5% 2025	13.993	0,54	
€3.500.000 SES 4,625% 2020	4.043	0,15	
€5.000.000 SES 4,75% 2021	5.981	0,23	

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Portfolio statement (continued)			
as at 30 June Holding	2016 €'000	2016 %	2015 %
'BBB' credit rated bonds (continued)			
€957.000 Snam 3,875% 2018	1.019	0,04	
€1.765.000 Snam 5% 2019	1.984	0,08	
€2.000.000 Solvay 1,625% 2022	2.107	0,08	
€3.711.000 Southern Power 1% 2022	3.738	0,14	
€4.975.000 Standard Chartered 4% 2025	4.856	0,19	
€2.000.000 Telefónica Emisiones 4,71% 2020	2.306	0,09	
€2.000.000 Telefónica Emisiones 5,375% 2018	2.567	0,10	
€10.956.000 Teva Pharmaceutical Finance 1,25% 2023	10.908	0,42	
€3.470.000 Teva Pharmaceutical Finance IV 2,875% 2019	3.707	0,14	
€5.500.000 Thales Group 0,75% 2023	5.569	0,21	
€4.000.000 Time Warner Cable 5,75% 2031	5.393	0,21	
\$2.500.000 Time Warner Cable 7,3% 2038	2.782	0,11	
€1.111.000 Transmission Finance 1,5% 2023	1.137	0,04	
€1.000.000 Tyco International 1,375% 2025 2	984	0,04	
€25.000.000 UBS Jersey Var. Rate 2026 (4,75%)	26.099	1,00	
€5.000.000 UBS Jersey Var. Rate Perp. (7,152%)	5.392	0,21	
\$8.000.000 UBS Var. Rate 2023 (4,75%)	7.321	0,28	
€8.800.000 Uniqa Insurance Var. Rate 2043 (6,875%)	9.328	0,36	
€9.819.000 Ureenco Finance 2,375% 2024	10.437	0,40	
€4.800.000 Ureenco Finance 2,5% 2021	5.138	0,20	
\$9.000.000 Verizon Communications 3,5% 2024	8.557	0,33	
\$13.117.000 Verizon Communications 4,272% 2036	12.000	0,46	
€2.660.000 Vesteda Finance 1,75% 2019	2.753	0,11	
€4.714.000 Vodafone Group 2,2% 2026 2	4.987	0,19	
€7.000.000 Volkswagen Financial Services 0,75% 2015	7.024	0,27	
€2.000.000 Volkswagen International Finance 0,875% 2023	1.991	0,08	
€3.500.000 Volkswagen International Finance Var. Rate Perp. (3,875%)	3.581	0,14	
€6.000.000 Volkswagen International Finance Var. Rate Perp. (4,625%)	6.156	0,24	
€4.000.000 Volkswagen Leasing GMBH 2,625% 2024	4.392	0,17	
€2.500.000 Vonovia 3,125% 2019	2.712	0,10	
€4.300.000 Vonovia Finance (formerly Deutsche Annington Immobilien) 4,625% 2074	4.457	0,17	
€3.000.000 WPP Finance 1,625% 2030	2.982	0,11	
'BB' credit rated bonds	176.524	6,75	7,64
€1.487.000 Anglo American Capital 1,75% 2017	1.473	0,06	
\$3.333.000 Anglo American Capital 3,625% 2020 144A	2.886	0,11	
£5.000.000 Anglo American Capital 6,875% 2018	6.229	0,24	
\$386.000 Bank of America 6,3% Perp.	365	0,01	
\$3.614.000 Bank of America Var. Rate Perp. (8,125%)	3.226	0,12	
€1.364.000 Bank of Ireland 10% 2020	1.618	0,06	
€7.571.000 Bank of Ireland Var. Rate 2024 (4,25%)	7.322	0,28	
£600.000 Bank of Scotland Var. Rate Perp. (7,281%)	802	0,03	
£1.000.000 Barclays Bank FRN Perp.	768	0,03	
€4.568.000 Delta Lloyd Levensverzekering Var. Rate Perp. (4,375%)	3.409	0,13	
€9.800.000 EDF Var. Rate Perp. (4,125%)	9.243	0,35	
€8.300.000 EDF Var. Rate Perp. (4,25%)	8.196	0,31	
€7.000.000 EDF Var. Rate Perp. (5%)	6.556	0,25	

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
'BB' credit rated bonds (continued)			
€4.000.000 EDF Var. Rate Perp. (5,375%)	3.960	0,15	
€2.500.000 Greif Luxembourg Finance 7,375% 2021	2.921	0,11	
€2.500.000 HBOS EURO Finance Var. Rate Perp. (7,627%)	2.441	0,09	
\$3.000.000 International Game Technology 6,25% 2022	2.698	0,10	
€5.000.000 Intesa Sanpaolo 2,855% 2025	4.786	0,18	
€5.000.000 Intesa Sanpaolo 3,928% 2026	4.991	0,19	
€7.000.000 KPN Var. Rate Perp. (6,125%)	7.452	0,29	
€5.000.000 Lloyds Banking Group Var. Rate Perp. (6,375%)	4.613	0,18	
£2.000.000 National Westminster Bank 6,5% 2021	2.655	0,10	
€800.000 National Westminster Bank Var. Rate Perp. (6,625%)	721	0,03	
€2.500.000 Rexam Var. Rate 2067 (6,75%)	2.495	0,10	
€5.000.000 Royal Bank of Scotland 3,625% 2024	4.864	0,19	
\$3.529.000 Royal Bank of Scotland 6,1% 2023	3.244	0,12	
€5.000.000 Royal Bank of Scotland 6,934% 2018	5.403	0,21	
€3.782.000 SNS 3,75% 2025	3.698	0,14	
€13.450.000 Société Générale Var. Rate Perp. (9,375%)	16.140	0,62	
€3.500.000 Solvay Finance Var. Rate Perp. (5,425%)	3.576	0,14	
€2.876.000 TA Manufacturing 3,625% 2023	2.689	0,10	
€500.000 Telecom Italia 7,75% 2033	663	0,03	
€6.815.000 Tesco 5,125% 2047	6.480	0,25	
€4.000.000 UBS Var. Rate Perp. (5,75%)	4.020	0,15	
€1.000.000 Unicredit 6,95% 2022	1.121	0,04	
€11.000.000 Unicredit Var. Rate 2025 (5,75%)	11.358	0,44	
€7.500.000 Unitymedia Hessen 4% 2025	7.544	0,29	
€1.215.000 Unitymedia Hessen 5,5% 2022	1.276	0,05	
£8.571.000 Virgin Media Secured Finance 6,25% 2029	10.163	0,39	
€2.400.000 ZF North American Capital 2,75% 2023	2.459	0,09	
'B' credit rated bonds	21.987	0,84	1,44
€2.050.000 Areva 4,875% 2024	1.657	0,06	
€2.000.000 Bank of Ireland 7,375% Perp.	1.849	0,07	
€2.286.000 Barclays Bank Var. Rate Perp. (7,875%)	2.471	0,09	
€2.000.000 Cabot Financial Luxembourg 10,375% 2019	2.537	0,10	
\$1.142.000 Intesa Sanpaolo 7,7% 2025	892	0,04	
€2.300.000 Intesa Sanpaolo Var. Rate Perp. (8,375%)	2.596	0,10	
€2.730.000 Numericable Group 5,375% 2022	2.768	0,11	
€5.000.000 Numericable Group 5,625% 2024	5.025	0,19	
\$3.000.000 Sprint Corporation 7,875% 2023	2.192	0,08	
Bonds with no credit rating	230.828	8,83	10,41
€10.000.000 América Móvil 4,125% 2019	11.177	0,42	
\$6.000.000 American Tower Trust 3,07% 2048	5.533	0,21	
€1.400.000 Assicurazioni Generali Var. Rate 2042 (7,75%)	1.617	0,06	
€2.732.000 Assicurazioni Generali Var. Rate 2047 (5,5%)	2.800	0,11	
€9.524.000 ATON 3,875% 2018	9.854	0,38	
€7.000.000 Banca Popolare di Vicenza 2,75% 2020	5.986	0,23	
€6.200.000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%)	5.317	0,20	
€1.832.000 Bank of Ireland 10% 2016	1.837	0,07	
€2.500.000 Barclays Bank 9,5% 2021	3.687	0,14	
€3.900.000 Bureau Veritas 3,125% 2021	4.217	0,16	
€4.900.000 Bureau Veritas 3,75% 2017	5.039	0,19	

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Investments

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
Bonds with no credit rating (continued)			
€1.900.000 Christian Dior 0,75% 2021	1.907	0,07	
€2.300.276 Claris Finance FRN 2060	2.277	0,09	
€2.145.764 Claris Finance FRN 2061 A1	2.158	0,08	
\$5.000.000 Credit Suisse Guernsey Var. Rate 2041 (7,875%)	4.511	0,17	
€5.000.000 Daimler 0,25% 2020	5.023	0,19	
€2.616.000 Davide Campari-Milano 2,75% 2020	2.760	0,11	
€3.000.000 Eurofins Scientific 3,375% 2023 2	3.023	0,12	
€1.400.000 Eurogrid 1,625% 2023	1.508	0,06	
€1.230.000 EWE 5,25% 2021	1.517	0,06	
€700.000 Generali Finance Var. Rate Perp. (5,479%)	708	0,03	
€7.321.409 German Residential Funding FRN 2024 1	7.366	0,28	
€8.992.478 German Residential Funding FRN 2024 A	9.080	0,35	
€7.000.000 Intesa Sanpaolo Var. Rate Perp. (4,75%)	6.738	0,26	
€3.000.000 Lagardère 4,125% 2017	3.128	0,12	
€2.700.000 Lehman Brothers Holdings Var. Rate 2016 (4,25%) [a]	0	0,00	
£3.913.000 Lloyds Bank (formerly Lloyds TSB Bank) 4,875% 2027	6.002	0,23	
€7.000.000 Louis Dreyfus Commodities 3,875% 2018	7.059	0,27	
€3.897.000 MAHLE 2,375% 2022	4.060	0,15	
€1.500.000 Nestlé Finance International 1,5% 2019	1.570	0,06	
€7.000.000 Nestlé Finance International 1,75% 2022	7.692	0,29	
£9.500.000 Old Mutual 8% 2021	12.235	0,47	
€2.499.000 S.p.A 3,125% 2021	2.607	0,10	
€8.000.000 Société Générale 4% 2023	8.867	0,34	
€5.000.000 Société Générale Var. Rate 2026 (2,5%)	4.991	0,19	
€1.450.000 Suez Environnement 5,5% 2024	2.004	0,08	
€8.000.000 Svenska Handelsbanken 2,625% 2022	9.104	0,35	
€8.083.000 Symrise 1,75% 2019	8.320	0,32	
€10.535.000 Symrise 4,125% 2017	11.037	0,42	
€2.500.000 Telefónica (Europe) Var. Rate Perp. (4,2%)	2.480	0,09	
€12.000.000 Telefónica (Germany) 2,375% 2021	12.978	0,50	
€3.400.000 Total Infrastructures Gaz France 4,339% 2021	4.010	0,15	
€6.491.000 UBS 1,125% 2020	6.722	0,26	
€3.734.237 Valencia Hipotecario 2 FRN 2043 2A	3.647	0,14	
€6.400.000 Vilmorin & Cie 2,375% 2021	6.675	0,26	
Credit default swaps	3.970	0,15	0,06
€(5.000.000) BP Jun 2023	(41)	0,00	
€(10.000.000) Heathrow Funding Dec 2022	(383)	(0,01)	
\$20.000.000 Markit iTraxx Australia Series 25 5 Year Jun 2021	217	0,01	
€(15.000.000) Markit iTraxx Europe Series 24 5 Year Dec 2020	108	0,00	
€(62.500.000) Markit iTraxx Europe Series 25 5 Year Jun 2021	494	0,01	
€70.000.000 Markit iTraxx Europe Snr Fin Series 25 5 Year Jun 2021	4.376	0,16	
€(10.000.000) Repsol Mar 2021	(330)	(0,01)	
€5.000.000 Rexam Dec 2016	(23)	0,00	
€(5.000.000) Telefónica Mar 2021	(62)	0,00	
€10.000.000 Volkswagen Dec 2017	(69)	0,00	

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
Credit default swaps (continued)			
€(10.000.000) Volkswagen Jun 2023	(296)	(0,01)	
€(5.000.000) Xstrata Dec 2017	(21)	0,00	
Forward currency contracts	7.572	0,29	(0,25)
£4.374.191 Bought for €5.367.855 (expires 27.07.16)	(78)	0,00	
£(170.194.975) Sold for €215.901.158 (expires 27.07.16)	10.073	0,38	
\$3.614.230 Bought for €3.245.516 (expires 27.07.16)	(5)	0,00	
\$(138.620.691) Sold for €121.858.050 (expires 27.07.16)	(2.418)	(0,09)	
Interest rate futures contracts	(9.748)	(0,37)	0,14
(1.029) 10 Year US Treasury Note Sep 2016	(2.681)	(0,10)	
2.307 Euro Bobl Sep 2016	2.445	0,09	
(354) Euro Bund Sep 2016	(933)	(0,03)	
(298) Euro Buxl Sep 2016	(4.322)	(0,17)	
(579) UK Long Gilt Bond Sep 2016	(3.623)	(0,14)	
(62) US Ultra Long Treasury Bond Sep 2016	(634)	(0,02)	
Portfolio of investments	2.514.373	96,20	95,76
Forward currency contracts for share class hedging			
CHF42.750.680 Bought for €38.731.271 (expires 27.07.16)	601	0,02	
CHF(7.387.753) Sold for €6.736.853 (expires 27.07.16)	(60)	0,00	
\$23.680.410 Bought for €21.176.451 (expires 27.07.16)	53	0,00	
\$(354.882) Sold for €314.835 (expires 27.07.16)	(3)	0,00	
Total portfolio (notes 2c & 2d on page 6)	2.514.964	96,22	95,81
Net other assets / (liabilities)	98.650	3,78	4,19
Net assets attributable to shareholders	2.613.614	100,00	100,00

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

[a] Defaulted bond.

M&G European Corporate Bond Fund

Financial highlights

Fund performance

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

The following charts and tables 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 (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2016 €'000	2015 €'000	2014 €'000
Fund net asset value (NAV)	2.613.614	3.289.650	2.869.218

Share class performance since launch

To give an indication of how the fund has performed since launch, the graph 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 long-term 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 01.07.15 % [a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+3,9	+4,3	+5,1	+4,2 [c]
Class 'C'	+4,5	+4,8	+5,6	+5,0 [c]
Sterling [d]				
Class 'A'	+22,3	+3,1	+3,1	+5,5 [c]
Class 'I'	+22,8	+3,5	n/a	+6,1 [e]
Class 'R'	+22,6	+3,3	n/a	+5,9 [e]
Class 'X'	+22,1	+2,9	+2,8	+5,4 [c]
Swiss franc [b]				
Class 'A-H'	+3,1	+3,7	n/a	+3,6 [f]
Class 'C-H'	+3,7	+4,2	n/a	+4,2 [f]
US dollar [b]				
Class 'A-H'	+4,8	n/a	n/a	+2,7 [g]
Class 'C-H'	+4,8	n/a	n/a	+3,3 [g]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 13 January 2003, the launch date of the fund.

[d] Price to price with net income reinvested.

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

[f] 28 September 2012, the launch date of the share class.

[g] 8 August 2014, the launch date of the share class.

M&G European Corporate Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,69	0,59	0,48	0,59

[a] Average of first three columns.

M&G European Corporate Bond Fund

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Specific share class performance

The following tables give 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' Income share performance

The share class was launched on 12 July 2013.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.616,63	1.628,97	1.560,75
Return before operating charges and after direct portfolio transaction costs	68,97	33,78	119,60
Operating charges	(18,89)	(19,41)	(18,12)
Return after operating charges	50,08	14,37	101,48
Distributions	(25,37)	(26,71)	(33,26)
Closing NAV	1.641,34	1.616,63	1.628,97

Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,06	0,03	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,06	0,03	0,03

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+3,10	+0,88	+6,50
Distribution yield	1,26	1,68	2,06
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information			
Closing NAV (€'000)	49.730	37.805	44.079
Closing NAV percentage of total fund NAV (%)	1,90	1,15	1,54
Number of shares	3.029.832	2.338.500	2.705.900
Highest share price (Euro ¢)	1.660,70	1.699,55	1.645,24
Lowest share price (Euro ¢)	1.582,27	1.622,39	1.552,85

Euro Class 'A' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.677,73	1.663,43	1.539,84
Return before operating charges and after direct portfolio transaction costs	72,01	34,03	142,13
Operating charges	(19,72)	(19,73)	(18,54)
Return after operating charges	52,29	14,30	123,59
Closing NAV	1.730,02	1.677,73	1.663,43
Retained distributions	26,46	27,50	33,51

Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,07	0,03	0,03
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,07	0,03	0,03

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+3,12	+0,86	+8,03
Distribution yield	1,26	1,68	2,08
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information			
Closing NAV (€'000)	1.538.271	1.599.372	987.868
Closing NAV percentage of total fund NAV (%)	58,86	48,62	34,43
Number of shares	88.916.333	95.329.629	59.387.358
Highest share price (Euro ¢)	1.743,80	1.752,42	1.671,77
Lowest share price (Euro ¢)	1.655,10	1.669,86	1.538,76

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.800,83	1.827,23	n/a
Return before operating charges and after direct portfolio transaction costs	76,84	25,63	n/a
Operating charges	(11,97)	(12,76)	n/a
Return after operating charges	64,87	12,87	n/a
Distributions	(37,37)	(39,27)	n/a
Closing NAV	1.828,33	1.800,83	n/a

Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,07	0,03	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,07	0,03	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,66	0,66	n/a
Return after operating charges	+3,60	+0,70	n/a
Distribution yield	1,76	2,19	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information			
Closing NAV (€'000)	10.054	4.072	n/a
Closing NAV percentage of total fund NAV (%)	0,39	0,12	n/a
Number of shares	549.906	226.091	n/a
Highest share price (Euro ¢)	1.851,78	1.895,17	n/a
Lowest share price (Euro ¢)	1.763,63	1.809,64	n/a

M&G European Corporate Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.839,44	1.814,68	1.671,50
Return before operating charges and after direct portfolio transaction costs	79,28	37,10	154,72
Operating charges	(12,29)	(12,34)	(11,54)
Return after operating charges	66,99	24,76	143,18
Closing NAV	1.906,43	1.839,44	1.814,68
Retained distributions	38,41	39,53	45,28

Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,07	0,03	0,04
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,07	0,03	0,04

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+3,64	+1,36	+8,57
Distribution yield	1,76	2,19	2,57
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€000)	790.278	1.216.513	1.502.579
Closing NAV percentage of total fund NAV (%)	30,24	36,98	52,37
Number of shares	41.453.258	66.135.056	82.801.403
Highest share price (Euro ¢)	1.920,86	1.919,34	1.823,65
Lowest share price (Euro ¢)	1.820,17	1.821,75	1.670,04

Sterling Class 'A' Income share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	62,04	70,41	71,26
Return before operating charges and after direct portfolio transaction costs	12,94	(6,50)	1,45
Operating charges	(0,76)	(0,79)	(0,82)
Return after operating charges	12,18	(7,29)	0,63
Distributions	(1,06)	(1,08)	(1,48)
Closing NAV	73,16	62,04	70,41

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+19,63	-10,35	+0,88
Distribution yield	1,26	1,68	2,08
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€000)	809	1.918	2.894
Closing NAV percentage of total fund NAV (%)	0,03	0,06	0,10
Number of shares	913.973	2.200.568	3.294.100
Highest share price (UK p)	74,34	71,85	73,70
Lowest share price (UK p)	61,47	62,05	70,02

Sterling Class 'A' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	84,54	94,71	94,26
Return before operating charges and after direct portfolio transaction costs	17,73	(8,80)	1,96
Operating charges	(1,04)	(1,07)	(1,11)
Return after operating charges	16,69	(9,87)	0,85
Distributions	(0,29)	(0,30)	(0,40)
Closing NAV	100,94	84,54	94,71
Retained distributions	1,16	1,18	1,58

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+19,74	-10,42	+0,90
Distribution yield	1,26	1,68	2,08
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€000)	81.255	138.135	128.092
Closing NAV percentage of total fund NAV (%)	3,11	4,20	4,46
Number of shares	66.514.023	116.245.925	108.373.065
Highest share price (UK p)	102,25	96,63	97,48
Lowest share price (UK p)	83,77	84,31	92,66

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	970,79	1.101,84	1.115,03
Return before operating charges and after direct portfolio transaction costs	202,59	(101,64)	22,92
Operating charges	(6,79)	(7,02)	(7,52)
Return after operating charges	195,80	(108,66)	15,40
Distributions	(21,90)	(22,39)	(28,59)
Closing NAV	1.144,69	970,79	1.101,84

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,04	0,02	0,02
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,04	0,02	0,02

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+20,17	-9,86	+1,38
Distribution yield	1,76	2,19	2,57
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€000)	22.170	34.566	40.370
Closing NAV percentage of total fund NAV (%)	0,85	1,05	1,41
Number of shares	1.600.435	2.533.215	2.935.800
Highest share price (UK p)	1.164,35	1.125,16	1.153,52
Lowest share price (UK p)	962,12	971,95	1.095,90

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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 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,030.10	1,149.44	1,139.45
Return before operating charges and after direct portfolio transaction costs	216.74	(107.26)	23.69
Operating charges	(7.27)	(7.38)	(7.80)
Return after operating charges	209.47	(114.64)	15.89
Distributions	(4.68)	(4.70)	(5.90)
Closing NAV	1,234.89	1,030.10	1,149.44
Retained distributions	18.72	18.79	23.58

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.02	0.03
Dilution adjustments ^[b]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.04	0.02	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+20.33	-9.97	+1.39
Distribution yield	1.76	2.19	2.56
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€'000)	14,297	8,368	5,164
Closing NAV percentage of total fund NAV (%)	0.55	0.25	0.18
Number of shares	956,684	577,983	360,000
Highest share price (UK p)	1,250.89	1,173.64	1,178.66
Lowest share price (UK p)	1,020.85	1,027.24	1,120.99

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	97.08	110.18	111.50
Return before operating charges and after direct portfolio transaction costs	20.27	(10.15)	2.29
Operating charges	(0.94)	(0.97)	(1.02)
Return after operating charges	19.33	(11.12)	1.27
Distributions	(1.93)	(1.98)	(2.59)
Closing NAV	114.48	97.08	110.18

Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.91	0.90	0.91
Return after operating charges	+19.91	-10.09	+1.14
Distribution yield	1.51	1.95	2.33
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€'000)	52	42	46
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	37,585	31,248	34,000
Highest share price (UK p)	116.39	112.47	115.32
Lowest share price (UK p)	96.21	97.15	109.58

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	102.51	114.61	113.75
Return before operating charges and after direct portfolio transaction costs	21.54	(10.68)	2.50
Operating charges	(1.00)	(1.01)	(1.08)
Return after operating charges	20.54	(11.69)	1.42
Distributions	(0.41)	(0.41)	(0.56)
Closing NAV	122.64	102.51	114.61
Retained distributions	1.63	1.65	2.23

Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.91	0.90	0.90
Return after operating charges	+20.04	-10.20	+1.25
Distribution yield	1.51	1.95	2.44
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€'000)	53	52	51
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	36,000	36,000	36,000
Highest share price (UK p)	124.23	116.99	117.66
Lowest share price (UK p)	101.58	102.23	111.89

Sterling Class 'X' Income share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	61.95	70.30	71.15
Return before operating charges and after direct portfolio transaction costs	12.92	(6.47)	1.46
Operating charges	(0.93)	(0.96)	(1.01)
Return after operating charges	11.99	(7.43)	0.45
Distributions	(0.89)	(0.92)	(1.30)
Closing NAV	73.05	61.95	70.30

Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	+19.35	-10.57	+0.63
Distribution yield	1.02	1.43	1.83
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€'000)	1,354	2,245	1,478
Closing NAV percentage of total fund NAV (%)	0.05	0.07	0.05
Number of shares	1,531,909	2,577,706	1,684,097
Highest share price (UK p)	74.20	71.71	73.58
Lowest share price (UK p)	61.38	61.93	69.90

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Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	82,92	93,07	92,82
Return before operating charges and after direct portfolio transaction costs	17,36	(8,64)	1,91
Operating charges	(1,24)	(1,27)	(1,32)
Return after operating charges	16,12	(9,91)	0,59
Distributions	(0,24)	(0,24)	(0,34)
Closing NAV	98,80	82,92	93,07
Retained distributions	0,96	0,97	1,36
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	+19,44	-10,65	+0,64
Distribution yield	1,01	1,43	1,83
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	52.020	47.452	42.776
Closing NAV percentage of total fund NAV (%)	1,99	1,45	1,49
Number of shares	43.505.203	40.715.450	36.826.951
Highest share price (UK p)	100,09	94,93	95,97
Lowest share price (UK p)	82,16	82,69	91,20

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.108,65	1.105,56	1.026,64
Return before operating charges and after direct portfolio transaction costs	38,97	16,56	91,56
Operating charges	(13,16)	(13,47)	(12,64)
Return after operating charges	25,81	3,09	78,92
Closing NAV	1.134,46	1.108,65	1.105,56
Retained distributions	17,14	17,83	22,39
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,04	0,02	0,02
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,04	0,02	0,02
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,18	1,18	1,18
Return after operating charges	+2,33	+0,28	+7,69
Distribution yield	1,24	1,65	2,04
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	23.264	181.182	108.619
Closing NAV percentage of total fund NAV (%)	0,89	5,51	3,79
Number of shares	2.230.266	16.992.832	11.941.450
Highest share price (Swiss ¢)	1.143,55	1.160,97	1.111,12
Lowest share price (Swiss ¢)	1.087,30	1.108,62	1.026,09

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.123,91	1.115,62	1.030,76
Return before operating charges and after direct portfolio transaction costs	40,25	16,14	92,28
Operating charges	(7,72)	(7,85)	(7,42)
Return after operating charges	32,53	8,29	84,86
Closing NAV	1.156,44	1.123,91	1.115,62
Retained distributions	23,25	23,78	33,96
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,04	0,02	0,02
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,04	0,02	0,02
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,68	0,68	0,69
Return after operating charges	+2,89	+0,74	+8,23
Distribution yield	1,75	2,16	2,54
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	9.147	10.494	5.202
Closing NAV percentage of total fund NAV (%)	0,35	0,32	0,18
Number of shares	860.245	970.848	566.800
Highest share price (Swiss ¢)	1.165,38	1.175,28	1.121,15
Lowest share price (Swiss ¢)	1.106,23	1.119,92	1.030,23

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	987,12	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	50,52	13,44	n/a
Operating charges	(11,71)	(10,82)	n/a
Return after operating charges	38,81	2,62	n/a
Distributions	(15,45)	(15,50)	n/a
Closing NAV	1.010,48	987,12	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,04	0,02	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,04	0,02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,18	1,17	n/a
Return after operating charges	+3,93	+0,26	n/a
Distribution yield	1,23	1,68	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	121	45	n/a
Closing NAV percentage of total fund NAV (%)	0,00	0,00	n/a
Number of shares	13.385	5.086	n/a
Highest share price (US ¢)	1.021,70	1.037,06	n/a
Lowest share price (US ¢)	968,99	990,70	n/a

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US dollar Class 'A-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	1.002,87	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	52,13	14,03	n/a
Operating charges	(12,02)	(11,16)	n/a
Return after operating charges	40,11	2,87	n/a
Closing NAV	1.042,98	1.002,87	n/a
Retained distributions	15,78	15,58	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,04	0,02	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,04	0,02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,18	1,17	n/a
Return after operating charges	+4,00	+0,29	n/a
Distribution yield	1,23	1,68	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	5.680	7.302	n/a
Closing NAV percentage of total fund NAV (%)	0,22	0,22	n/a
Number of shares	607.054	814.044	n/a
Highest share price (US ¢)	1.050,49	1.047,12	n/a
Lowest share price (US ¢)	992,65	999,32	n/a

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	986,63	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	50,56	12,94	n/a
Operating charges	(6,72)	(6,12)	n/a
Return after operating charges	43,84	6,82	n/a
Distributions	(20,46)	(20,19)	n/a
Closing NAV	1.010,01	986,63	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,04	0,02	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,04	0,02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,68	0,68	n/a
Return after operating charges	+4,44	+0,68	n/a
Distribution yield	1,74	2,18	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	110	18	n/a
Closing NAV percentage of total fund NAV (%)	0,00	0,00	n/a
Number of shares	12.179	2.000	n/a
Highest share price (US ¢)	1.022,29	1.037,19	n/a
Lowest share price (US ¢)	969,74	991,49	n/a

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	1.008,18	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	52,88	14,39	n/a
Operating charges	(7,09)	(6,21)	n/a
Return after operating charges	45,79	8,18	n/a
Closing NAV	1.053,97	1.008,18	n/a
Retained distributions	21,01	20,87	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,04	0,02	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,04	0,02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,68	0,68	n/a
Return after operating charges	+4,54	+0,82	n/a
Distribution yield	1,74	2,18	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	14.949	69	n/a
Closing NAV percentage of total fund NAV (%)	0,57	0,00	n/a
Number of shares	1.580.824	7.624	n/a
Highest share price (US ¢)	1.061,32	1.051,86	n/a
Lowest share price (US ¢)	1.001,28	999,52	n/a

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

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

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Statement of total return

for the year to 30 June	Note	2016		2015	
		€'000	€'000	€'000	€'000
Income					
Net capital gains / (losses)	2		22.930		(399.137)
Revenue	4	75.510		91.305	
Expenses	5	(27.671)		(30.862)	^[a]
Net revenue / (expense) before taxation		47.839		60.443	
Taxation	6	(44)		(95)	
Net revenue / (expense) after taxation			47.795		60.348
Total return before distributions			70.725		(338.789)
Distributions	7		(47.796)		(60.348)
Change in net assets attributable to shareholders from investment activities			22.929		(399.137)

Statement of change in net assets attributable to shareholders

for the year to 30 June	2016		2015		
	€'000	€'000	€'000	€'000	
Opening net assets attributable to shareholders		3.289.650		2.869.218	
Amounts received on issue of shares	797.656		1.399.396	^[a]	
Amounts paid on cancellation of shares	(1.545.025)		(1.008.643)	^[a]	
		(747.369)		390.753	
Dilution adjustments		4.515		3.651	^[a]
Change in net assets attributable to shareholders from investment activities (see above)		22.929		(399.137)	
Retained distributions on Accumulation shares		43.889		58.629	
Exchange differences resulting from translation to presentational currency		0		366.536	
Closing net assets attributable to shareholders		2.613.614		3.289.650	

Balance sheet

as at 30 June	Note	2016 €'000	2015 €'000	
Assets				
Fixed assets				
Investments		2.530.946	3.160.498	
Current assets				
Debtors	8	49.132	63.113	
Cash and bank balances	9	59.871	92.734	
Total assets		2.639.949	3.316.345	
Liabilities				
Investment liabilities		(15.982)	(8.760)	
Creditors				
Distribution payable		(545)	(532)	^[a]
Other creditors	10	(9.808)	(17.403)	^[a]
Total liabilities		(26.335)	(26.695)	
Net assets attributable to shareholders		2.613.614	3.289.650	

^[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling €4.515.000 (2015: €3.651.000) have been reclassified from 'Amounts received on issue of shares' of €976.000 (2015: €3.076.000) and 'Amounts paid on cancellation of shares' of €3.539.000 (2015: €575.000).

Interest payable of €153.000 (2015: €184.000) has been reclassified from 'Distributions' into 'Expenses'.

Income tax payable of €203.000 (2015: €162.000) has been reclassified from 'Other creditors' into 'Distribution payable'.

Additionally, on 1 July 2015 the fund changed its functional and presentational currency from UK sterling to euros to better reflect the currency of its primary economic environment. The results for the current period have therefore been prepared and presented in euros. For comparability the results of the prior period have been translated from UK sterling to be presented in euros. The change in presentational currency represents a change in accounting policy which has been retrospectively applied.

Assets and liabilities have been translated into euros at the closing exchange rates. The impact of the change in presentation to euros in both periods was €nil for all 'Balance sheet' items. The table below shows the net assets attributable to shareholders in both euro and UK sterling terms for the current and prior periods:

Net assets attributable to shareholders	€'000	£'000
30 June 2014	2.869.218	2.299.094
30 June 2015	3.289.650	2.340.437
30 June 2016	2.613.614	2.159.701

All items in the 'Statement of total return' and other changes in net assets attributable to shareholders (changes in net assets) for the current period have been translated into euros at the dates of the transactions; and for the prior period these have been translated at the average rate for the period.

A new financial statement line item 'Exchange differences resulting from translation to presentational currency' has been added to the 'Statement of change in net assets attributable to shareholders'.

There is no translation adjustment in the current period, however in the prior period this was €366.536.000. This adjustment arises because of the different exchange rates used to translate balance sheet items and amounts relating to changes in net assets.

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2 Net capital gains / (losses)

for the year to 30 June	2016 €'000	2015 €'000
Non-derivative securities	32.062	(306.044)
Derivative contracts	(6.371)	(90.220)
Currency gains / (losses)	(2.749)	(2.860)
Transaction charges	(12)	(13)
Net capital gains / (losses)	22.930	(399.137)

3 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 79.

for the year to 30 June	2016 €'000	2015 €'000		
a) Purchases				
Debt securities ^[a]	616.217	1.787.098		
Total purchases after transaction costs	616.217	1.787.098		
b) Sales				
Debt securities ^[a]	1.275.001	1.448.434		
Total sales after transaction costs	1.275.001	1.448.434		
c) Direct portfolio transaction costs	2016 €'000	% of average NAV	2015 €'000	% of average NAV
Commissions paid				
Derivatives	108	0,00	59	0,00
Total direct portfolio transaction costs	108		59	
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread ^[b]		0,69		0,59

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

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

4 Revenue

for the year to 30 June	2016 €'000	2015 €'000
Bank interest	15	16
Derivative revenue	(5.554)	(5.323)
Interest on debt securities	81.049	96.612
Total revenue	75.510	91.305

5 Expenses

for the year to 30 June	2016 €'000	2015 €'000
Payable to the ACD or associate		
Annual management charge	23.092	25.335
Administration charge	4.157	4.989
Share class hedging charge	20	34
	27.269	30.358
Payable to the Depository or associate		
Depository's charge (including VAT)	115	131
Other expenses		
Audit fee (including VAT)	12	11
Interest payable	153	184
Regulatory fees	0	4
Safe custody charge	122	170
Tax fees (including VAT) ^[a]	0	4
	287	373
Total expenses	27.671	30.862

[a] Fees of €nil (2015: €4.000) paid to overseas firms affiliated with Ernst & Young LLP.

6 Taxation

for the year to 30 June	2016 €'000	2015 €'000
a) Analysis of charge in the year		
Corporation tax	9	0
Withholding tax	44	100
Current double taxation relief	(9)	0
Prior year adjustment	0	(5)
Deferred tax (note 6c)	0	0
Total taxation	44	95
b) Factors affecting taxation charge for the year		
Net revenue before taxation	47.839	60.443
Corporation tax at 20%	9.568	12.089
Effects of:		
Interest distributions	(9.559)	(12.089)
Withholding tax	44	100
Total double taxation relief	(9)	0
Prior year adjustment	0	(5)
Current tax charge (note 6a)	44	95
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	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 (2015: 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 where applicable.

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7 Distributions

for the year to 30 June	2016		2015	
	Inc ^[a] €'000	Acc ^[b] €'000	Inc ^[a] €'000	Acc ^[b] €'000
Interest distributions				
First interim	340	12.491	468	15.584
Second interim	348	11.090	520	17.118
Third interim	312	9.730	401	13.773
Final	341	10.578	284	12.154
Total net distributions		45.230		60.302
Income tax deducted at source		627		732
Interest distributions		45.857		61.034
Income deducted on cancellation of shares		4.100		2.324
Income received on issue of shares		(2.161)		(3.010)
Distributions		47.796		60.348
Net revenue per statement of total return		47.795		60.348
Undistributed income brought forward		1		1
Undistributed income carried forward		0		(1)
Distributions		47.796		60.348

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

8 Debtors

as at 30 June	2016 €'000	2015 €'000
Amounts receivable on issues of shares	13.345	6.786
Bank interest receivable	0	1
Currency deals outstanding	958	84
Debt security interest receivable	34.794	47.934
Derivative revenue receivable	34	45
Sales awaiting settlement	0	8.250
Withholding tax recoverable	1	13
Total debtors	49.132	63.113

9 Cash and bank balances

as at 30 June	2016 €'000	2015 €'000
Amounts held at futures clearing houses and brokers	21.515	1.706
Cash held as bank balances	38.356	91.028
Total cash and bank balances	59.871	92.734

10 Other creditors

as at 30 June	2016 €'000	2015 €'000
ACD's annual management charge payable	602	589
Administration charge payable	107	108
Amounts payable on cancellation of shares	7.770	15.561
Bank overdraft interest payable	0	22
Currency deals outstanding	958	84
Derivative expense payable	314	991
Expenses payable	57	48
Total other creditors	9.808	17.403

11 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: same).

12 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 13 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Euro				
Class 'A' Income (Gross)	2.338.500	1.214.180	(522.848)	3.029.832
Class 'A' Accumulation (Gross)	95.329.629	24.039.814	(30.453.110)	88.916.333
Class 'C' Income (Gross)	226.091	429.001	(105.186)	549.906
Class 'C' Accumulation (Gross)	66.135.056	16.070.381	(40.752.179)	41.453.258
Sterling				
Class 'A' Income (Net)	2.200.568	332.096	(1.618.691)	913.973
Class 'A' Accumulation (Net)	116.245.925	3.148.800	(52.880.702)	66.514.023
Class 'I' Income (Net)	2.533.215	729.938	(1.662.718)	1.600.435
Class 'I' Accumulation (Net)	577.983	772.469	(393.768)	956.684
Class 'R' Income (Net)	31.248	10.921	(4.584)	37.585
Class 'R' Accumulation (Net)	36.000	0	0	36.000
Class 'X' Income (Net)	2.577.706	1.278.391	(2.324.188)	1.531.909
Class 'X' Accumulation (Net)	40.715.450	7.911.610	(5.121.857)	43.505.203
Swiss franc				
Class 'A-H' Accumulation (Gross)	16.992.832	485.997	(15.248.563)	2.230.266
Class 'C-H' Accumulation (Gross)	970.848	115.508	(226.111)	860.245
US dollar				
Class 'A-H' Income (Gross)	5.086	11.299	(3.000)	13.385
Class 'A-H' Accumulation (Gross)	814.044	46.342	(253.332)	607.054
Class 'C-H' Income (Gross)	2.000	10.179	0	12.179
Class 'C-H' Accumulation (Gross)	7.624	1.577.000	(3.800)	1.580.824

13 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'	3,25	n/a	1,00	n/a
Class 'C'	1,25	n/a	0,50	n/a
Sterling				
Class 'A'	3,00	n/a	1,00	n/a
Class 'I'	1,00	n/a	0,50	n/a
Class 'R'	1,00	n/a	0,75	n/a
Class 'X'	nil	4,50 ^[a]	1,25	n/a
Swiss franc				
Class 'A-H'	3,25	n/a	1,00	^[b]
Class 'C-H'	1,25	n/a	0,50	^[b]
US dollar				
Class 'A-H'	3,25	n/a	1,00	^[b]
Class 'C-H'	1,25	n/a	0,50	^[b]

[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

[b] This charge may vary between 0,01% and 0,055%.

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14 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 7. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 8 and 10 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 5. 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 10.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 21,65% (2015: 28,02%) of the fund's shares.

15 Events after the balance sheet date

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

16 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.

Valuation technique	Assets	Liabilities	Assets	Liabilities
	2016	2016	2015	2015
	€'000	€'000	€'000	€'000
Level 1	284.989	(12.193)	315.899	(73)
Level 2	2.245.957	(3.789)	2.844.599	(8.687)
Level 3	0	0	0	0
	2.530.946	(15.982)	3.160.498	(8.760)

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 12 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data.'

17 Risk management policies

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

18 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.

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 30 June 2016 was 13% (2015: 13%).

The lowest, highest and average utilisation of the VaR limit calculated during the financial years ended 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016	2015
	%	%
Lowest	1,91	1,21
Highest	2,60	2,07
Average	2,26	1,62

20 Credit risk

as at 30 June	2016	2015
	€'000	€'000
Investment grade securities	2.083.240	2.510.792
Below investment grade securities	198.511	300.564
Unrated securities	230.828	340.483
Other investments	2.385	(101)
Total	2.514.964	3.151.738

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21 Counterparty exposure

as at 30 June 2016	Credit default swaps €'000	Forward currency contracts €'000	Futures €'000	Collateral held as cash €'000	Net exposure €'000
Bank of America Merrill Lynch	217	0	(9,748)	(17,744)	(27,275)
Barclays Bank	1,506	0	0	0	1,506
Credit Suisse	(644)	0	0	0	(644)
Deutsche Bank	(383)	0	0	0	(383)
HSBC	0	(107)	0	0	(107)
JPMorgan	3,274	4,954	0	(3,771)	4,457
Royal Bank of Scotland	0	181	0	0	181
State Street Bank	0	(1,832)	0	0	(1,832)
UBS	0	4,967	0	0	4,967
Total	3,970	8,163	(9,748)	(21,515)	(19,130)

as at 30 June 2015	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	4,450	(1,706)	2,744
Barclays Bank	69	0	0	0	69
BNP Paribas	111	(3,712)	0	0	(3,601)
Credit Suisse	787	0	0	0	787
Deutsche Bank	67	0	0	0	67
Goldman Sachs	(184)	0	0	0	(184)
JPMorgan	1,181	(22)	0	0	1,159
Royal Bank of Scotland	0	(4,540)	0	0	(4,540)
State Street Bank	0	1,692	0	0	1,692
Total	2,031	(6,582)	4,450	(1,706)	(1,807)

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 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 €'000	2016 %	2015 €'000	2015 %
Lowest	3,614,035	145	380,924	117
Highest	5,950,680	187	6,266,607	186
Average	4,286,953	155	4,914,403	153

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	01.07.15	30.09.15	01.10.15	30.11.15
Second interim	01.10.15	31.12.15	04.01.16	29.02.16
Third interim	01.01.16	31.03.16	01.04.16	31.05.16
Final	01.04.16	30.06.16	01.07.16	31.08.16

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' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2015	
	€	€	€	€	€	€
Group 1						
First interim	6,4160	-	6,4160	-	6,4160	7,4754
Second interim	6,3625	-	6,3625	-	6,3625	7,6951
Third interim	6,2866	-	6,2866	-	6,2866	5,7291
Final	6,3043	-	6,3043	-	6,3043	5,8089
Group 2						
First interim	3,2789	-	3,2789	3,1371	6,4160	7,4754
Second interim	2,5310	-	2,5310	3,8315	6,3625	7,6951
Third interim	3,0110	-	3,0110	3,2756	6,2866	5,7291
Final	3,1939	-	3,1939	3,1104	6,3043	5,8089

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	€	€	€	€	€	€
Group 1						
First interim	6,6528	-	6,6528	-	6,6528	7,6330
Second interim	6,6374	-	6,6374	-	6,6374	7,8923
Third interim	6,5604	-	6,5604	-	6,5604	5,9147
Final	6,6098	-	6,6098	-	6,6098	6,0573
Group 2						
First interim	3,2531	-	3,2531	3,3997	6,6528	7,6330
Second interim	3,0563	-	3,0563	3,5811	6,6374	7,8923
Third interim	2,6934	-	2,6934	3,8670	6,5604	5,9147
Final	2,9508	-	2,9508	3,6590	6,6098	6,0573

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23 Interest distribution tables (continued)

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	€	€	€	€	€	€
Group 1						
First interim	9,4304	-	9,4304	-	9,4304	10,6860
Second interim	9,3159	-	9,3159	-	9,3159	10,9610
Third interim	9,2566	-	9,2566	-	9,2566	8,7473
Final	9,3634	-	9,3634	-	9,3634	8,8754
Group 2						
First interim	5,9284	-	5,9284	3,5020	9,4304	10,6860
Second interim	5,9553	-	5,9553	3,3606	9,3159	10,9610
Third interim	5,0934	-	5,0934	4,1632	9,2566	8,7473
Final	5,0710	-	5,0710	4,2924	9,3634	8,8754

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	€	€	€	€	€	€
Group 1						
First interim	9,6300	-	9,6300	-	9,6300	10,6861
Second interim	9,5472	-	9,5472	-	9,5472	10,9873
Third interim	9,5210	-	9,5210	-	9,5210	8,8468
Final	9,7078	-	9,7078	-	9,7078	9,0106
Group 2						
First interim	5,6458	-	5,6458	3,9842	9,6300	10,6861
Second interim	4,1310	-	4,1310	5,4162	9,5472	10,9873
Third interim	3,1821	-	3,1821	6,3389	9,5210	8,8468
Final	3,7922	-	3,7922	5,9156	9,7078	9,0106

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	0,2555	0,0511	0,2044	-	0,2044	0,2492
Second interim	0,2515	0,0503	0,2012	-	0,2012	0,2608
Third interim	0,2660	0,0532	0,2128	-	0,2128	0,1784
Final	0,2840	0,0568	0,2272	-	0,2272	0,1784
Group 2						
First interim	0,1064	0,0213	0,0851	0,1193	0,2044	0,2492
Second interim	0,1420	0,0284	0,1136	0,0876	0,2012	0,2608
Third interim	0,1375	0,0275	0,1100	0,1028	0,2128	0,1784
Final	0,1955	0,0391	0,1564	0,0708	0,2272	0,1784

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	0,3470	0,0694	0,2776	-	0,2776	0,3384
Second interim	0,3455	0,0691	0,2764	-	0,2764	0,3512
Third interim	0,3665	0,0733	0,2932	-	0,2932	0,2424
Final	0,3910	0,0782	0,3128	-	0,3128	0,2440
Group 2						
First interim	0,0965	0,0193	0,0772	0,2004	0,2776	0,3384
Second interim	0,2223	0,0445	0,1778	0,0986	0,2764	0,3512
Third interim	0,1163	0,0233	0,0930	0,2002	0,2932	0,2424
Final	0,1560	0,0312	0,1248	0,1880	0,3128	0,2440

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	5,2800	1,0560	4,2240	-	4,2240	5,0500
Second interim	5,1945	1,0389	4,1556	-	4,1556	5,2024
Third interim	5,5140	1,1028	4,4112	-	4,4112	3,8404
Final	5,9070	1,1814	4,7256	-	4,7256	3,8168
Group 2						
First interim	2,9548	0,5910	2,3638	1,8602	4,2240	5,0500
Second interim	2,5551	0,5110	2,0441	2,1115	4,1556	5,2024
Third interim	2,6301	0,5260	2,1041	2,3071	4,4112	3,8404
Final	3,4668	0,6934	2,7734	1,9522	4,7256	3,8168

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	5,6025	1,1205	4,4820	-	4,4820	5,2644
Second interim	5,5310	1,1062	4,4248	-	4,4248	5,4268
Third interim	5,9055	1,1811	4,7244	-	4,7244	4,0220
Final	6,3590	1,2718	5,0872	-	5,0872	4,0784
Group 2						
First interim	1,5194	0,3039	1,2155	3,2665	4,4820	5,2644
Second interim	2,2605	0,4521	1,8084	2,6164	4,4248	5,4268
Third interim	2,4993	0,4999	1,9994	2,7250	4,7244	4,0220
Final	4,6528	0,9306	3,7222	1,3650	5,0872	4,0784

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	0,4640	0,0928	0,3712	-	0,3712	0,4524
Second interim	0,4575	0,0915	0,3660	-	0,3660	0,4636
Third interim	0,4875	0,0975	0,3900	-	0,3900	0,3328
Final	0,5195	0,1039	0,4156	-	0,4156	0,3336
Group 2						
First interim	0,2215	0,0443	0,1772	0,1940	0,3712	0,4524
Second interim	0,2051	0,0410	0,1641	0,2019	0,3660	0,4636
Third interim	0,0459	0,0092	0,0367	0,3533	0,3900	0,3328
Final	0,2446	0,0489	0,1957	0,2199	0,4156	0,3336

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23 Interest distribution tables (continued)

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	p	p	p	p	p	p
Group 1						
First interim	0,4880	0,0976	0,3904	-	0,3904	0,4680
Second interim	0,4840	0,0968	0,3872	-	0,3872	0,4864
Third interim	0,5175	0,1035	0,4140	-	0,4140	0,3492
Final	0,5535	0,1107	0,4428	-	0,4428	0,3472
Group 2						
First interim	0,4880	0,0976	0,3904	0,0000	0,3904	0,4680
Second interim	0,4840	0,0968	0,3872	0,0000	0,3872	0,4864
Third interim	0,5175	0,1035	0,4140	0,0000	0,4140	0,3492
Final	0,5535	0,1107	0,4428	0,0000	0,4428	0,3472

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	p	p	p	p	p	p
Group 1						
First interim	0,2150	0,0430	0,1720	-	0,1720	0,2144
Second interim	0,2130	0,0426	0,1704	-	0,1704	0,2248
Third interim	0,2245	0,0449	0,1796	-	0,1796	0,1456
Final	0,2365	0,0473	0,1892	-	0,1892	0,1472
Group 2						
First interim	0,0908	0,0182	0,0726	0,0994	0,1720	0,2144
Second interim	0,0794	0,0159	0,0635	0,1069	0,1704	0,2248
Third interim	0,1018	0,0204	0,0814	0,0982	0,1796	0,1456
Final	0,1389	0,0278	0,1111	0,0781	0,1892	0,1472

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	p	p	p	p	p	p
Group 1						
First interim	0,2865	0,0573	0,2292	-	0,2292	0,2852
Second interim	0,2860	0,0572	0,2288	-	0,2288	0,2988
Third interim	0,3020	0,0604	0,2416	-	0,2416	0,1936
Final	0,3200	0,0640	0,2560	-	0,2560	0,1964
Group 2						
First interim	0,2278	0,0456	0,1822	0,0470	0,2292	0,2852
Second interim	0,1298	0,0260	0,1038	0,1250	0,2288	0,2988
Third interim	0,1345	0,0269	0,1076	0,1340	0,2416	0,1936
Final	0,0500	0,0100	0,0400	0,2160	0,2560	0,1964

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	€	€	€	€	€	€
Group 1						
First interim	4,4636	-	4,4636	-	4,4636	4,9710
Second interim	4,1679	-	4,1679	-	4,1679	5,1750
Third interim	4,2427	-	4,2427	-	4,2427	3,7480
Final	4,2683	-	4,2683	-	4,2683	3,9327
Group 2						
First interim	2,6026	-	2,6026	1,8610	4,4636	4,9710
Second interim	1,2252	-	1,2252	2,9427	4,1679	5,1750
Third interim	1,9789	-	1,9789	2,2638	4,2427	3,7480
Final	2,3919	-	2,3919	1,8764	4,2683	3,9327

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	€	€	€	€	€	€
Group 1						
First interim	5,9760	-	5,9760	-	5,9760	6,4608
Second interim	5,7373	-	5,7373	-	5,7373	6,6564
Third interim	5,7136	-	5,7136	-	5,7136	5,2263
Final	5,8214	-	5,8214	-	5,8214	5,4382
Group 2						
First interim	3,6735	-	3,6735	2,3025	5,9760	6,4608
Second interim	0,8700	-	0,8700	4,8673	5,7373	6,6564
Third interim	4,1276	-	4,1276	1,5860	5,7136	5,2263
Final	3,8352	-	3,8352	1,9862	5,8214	5,4382

US dollar Class 'A-H' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	€	€	€	€	€	€
Group 1						
First interim	3,9119	-	3,9119	-	3,9119	4,2234
Second interim	3,8009	-	3,8009	-	3,8009	4,4775
Third interim	3,9201	-	3,9201	-	3,9201	3,1878
Final	3,8210	-	3,8210	-	3,8210	3,6120
Group 2						
First interim	2,3559	-	2,3559	1,5560	3,9119	4,2234
Second interim	3,8009	-	3,8009	0,0000	3,8009	4,4775
Third interim	2,4984	-	2,4984	1,4217	3,9201	3,1878
Final	0,1904	-	0,1904	3,6306	3,8210	3,6120

US dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016	
	€	€	€	€	€	€
Group 1						
First interim	3,9712	-	3,9712	-	3,9712	4,2234
Second interim	3,8684	-	3,8684	-	3,8684	4,5471
Third interim	4,0014	-	4,0014	-	4,0014	3,1932
Final	3,9421	-	3,9421	-	3,9421	3,6197
Group 2						
First interim	2,3972	-	2,3972	1,5740	3,9712	4,2234
Second interim	1,7412	-	1,7412	2,1272	3,8684	4,5471
Third interim	0,8914	-	0,8914	3,1100	4,0014	3,1932
Final	1,9786	-	1,9786	1,9635	3,9421	3,6197

M&G European Corporate Bond Fund

Financial statements and notes

Notes to the financial statements

23 Interest distribution tables (continued)

US dollar Class 'C-H' Income shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	€	€	€	€	€	€
First interim	5,1866	-	5,1866	-	5,1866	5,3550
Second interim	5,0203	-	5,0203	-	5,0203	5,5919
Third interim	5,1238	-	5,1238	-	5,1238	4,3380
Final	5,1272	-	5,1272	-	5,1272	4,9005
Group 2						
First interim	5,1866	-	5,1866	0,0000	5,1866	5,3550
Second interim	5,0203	-	5,0203	0,0000	5,0203	5,5919
Third interim	3,0395	-	3,0395	2,0843	5,1238	4,3380
Final	5,1272	-	5,1272	0,0000	5,1272	4,9005

US dollar Class 'C-H' Accumulation shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	€	€	€	€	€	€
First interim	5,2715	-	5,2715	-	5,2715	5,4485
Second interim	5,1289	-	5,1289	-	5,1289	5,7715
Third interim	5,2896	-	5,2896	-	5,2896	4,4212
Final	5,3185	-	5,3185	-	5,3185	5,2288
Group 2						
First interim	3,2755	-	3,2755	1,9960	5,2715	5,4485
Second interim	0,7276	-	0,7276	4,4013	5,1289	5,7715
Third interim	5,2896	-	5,2896	0,0000	5,2896	4,4212
Final	5,3185	-	5,3185	0,0000	5,3185	5,2288

M&G European High Yield Bond Fund

Authorised Corporate Director's Report

Investment objective

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

Investment policy

The Fund mainly invests in higher yielding debt instruments denominated in any European currency and will normally be managed to give investors exposure to European currencies. The Fund's exposure to higher yielding debt instruments may be gained through the use of derivatives. 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 which may be denominated in any major global currency. Any non-European currency exposures within the fund may be managed by currency hedges in European currencies.

Investment approach

The M&G European High Yield Bond Fund focuses on ongoing proprietary research rather than relying on external credit ratings. 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. The fund's exposure to higher yielding debt instruments may be gained through the use of derivatives. Exposure to European currencies (mainly the euro) is an integral part of the management approach, and fluctuations in the exchange rates of these currencies against sterling are likely to play a significant role in determining total returns for UK-based investors.

Risk profile

The fund invests mainly in higher yielding fixed income securities denominated in any European currency. It is primarily subject to the price volatility of the European bond market as well as the performance of individual issuers. It is also influenced by developments in the broader global bond market. In addition, the fund is subject to fluctuations in currency exchange rates.

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

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

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

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



The above number:

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

Investment review

As at 1 July 2016, for the year ended 30 June 2016

Performance against objective

Between 1 July 2015 (the start of the review period) and 1 July 2016, the M&G European High Yield Bond Fund produced a positive total return (capital performance with net income reinvested) across its different share classes.^[a] The marked movements in currency exchange rates during the period accounted for the variance in the returns between the share classes. A sharp depreciation in the value of sterling particularly boosted the returns of the sterling share classes as the fund was primarily invested in non-sterling assets.

The fund aims to maximise total return, while generating a high level of income. While it was able to produce an overall positive total return over the 12 months under review, the level of income generated by the fund fell during this period, primarily due to adverse movements in the foreign currencies in which its investments are denominated.^[b]

Investment performance

The performance of high yield bonds was highly changeable over the 12 months under review. Prior to the beginning of 2016, returns from so-called 'risk assets' were beset by suppressed commodity prices and concerns over global economic growth. (High yield bonds are fixed income securities issued by companies with a low credit rating. They therefore pay a higher rate of interest than their more highly rated counterparts to compensate investors for the greater possibility that the issuer might be unable to meet its obligations, or in other words, default.)

The subsequent rise in the price of oil in the first quarter of 2016 has helped to recoup much of the earlier losses seen in the US high yield market in particular. Since the lower rated commodity sector makes up a comparatively large portion of the US high yield bond sector, the rebound was especially beneficial, with the result that US high yield bonds returned 1.7% over the 12 months to the end of June.

M&G European High Yield Bond Fund

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Investment review

Investment performance (continued)

The European high yield sector, on the other hand, proved more resilient over the same period, delivering a return of 2.7%. This is in part thanks to a bias towards non-cyclical areas (that is, areas that are less sensitive to the swings in economic cycles) and a number of policy measures from the European Central Bank (ECB) in response to continued weakness in the eurozone's economy. These involved an expansion of the ECB's significant economic stimulus measures, which included further reductions in interest rates. The ECB also confirmed in March 2016 that it would expand a programme whereby it uses its own money to buy up government and corporate bonds in the region. The policymaker's intention to include corporate bonds (fixed income securities issued by companies) in its bond-buying programme was particularly well received since even some high yield companies may be eligible for the programme so long as they secure at least one investment grade rating from a recognised credit rating agency. In essence, this action aims to keep interest rates low, as well as stimulate lending in the economy, and the prospect of additional buying activity by the ECB helped to push bond prices higher.

In addition, in the final month of the period, the UK held an 'In/Out' referendum regarding its membership of the European Union (EU). The vote produced an unexpected 'leave' result, which most economists expect to lead to reduced economic growth, not only in the UK but also in the EU. Among the knock-on effects of the referendum, 'risk assets' including high yield bonds and company shares sold off, as investors flocked to the relative safety of government bonds in mainstream markets such as Germany and the US during times of uncertainty. After the immediate sharp market sell-off, however, high yield bonds rebounded strongly in the 'risk-on' attitude seen in the last trading days of June.

The fund's positive return over the review period was supported by its cautious allocation to the energy and commodities sectors. Given that the pound declined markedly against many key currencies towards the end of the review period following the vote to leave the EU, this provided a boost to the performance of the fund's sterling share classes.

Investment activities

Over the 12 months, we positioned the fund to reflect the changes in our regional and sector outlook, and views on credit risk (that is, companies' ability to repay their debts).

Throughout the period, the fund was positioned with a bias towards defensive, non-cyclical companies offering resilient cashflows, with our favoured sectors being well-capitalised banks, industrials and media companies. Ahead of the UK referendum, we focused on reducing the risk on the portfolio and so had sold down positions from Societe Generale, Barclays, Santander and ING.

Over the period, our allocation to the US was increased from as little as 9.6% to over 25% of the portfolio. This reflects our belief that following the policy announcements from the ECB, valuations in the US high yield market present a comparatively more attractive opportunity going forward. Purchases included issues from auto part manufacturer ZF North America Capital and CTL, a US communications business.

We also increased our allocation to BB rated bonds over the period to around 41%, and maintained a significant allocation to single B as this still represents a segment of the market where we have the most confidence of the value that can be found.

Outlook

The European economy is now growing at a steady pace, and there are several arguments to make in favour of further growth in the high yield bond market. Policymakers continue to pursue an extremely accommodative monetary policy, creating a uniquely positive environment for corporate bond markets and we are seeing the current rally as a response to these announcements. The low exposure of the European market to energy and commodity-dependent companies means that we expect default rates for this market to stay comparatively low in the short term.

Nonetheless, even though the sharp fall in sterling has been one of the main headlines in the post-Brexit referendum environment, the euro has also fallen against the US dollar as markets rightly assess the key implications of Brexit for the eurozone as well. For example, the referendum result has increased the uncertainty of how the wider EU project will look over the next few years. Also relevantly, lower UK growth is likely to have some dampening effect on the performance of the European economy.

That said, our preferred high yield allocation is still to favour the US market. Over the past two calendar years, the European high yield market has outperformed its US counterpart, thereby increasing the attractiveness of US high yield valuations.

James Tomlins

Fund manager

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

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

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

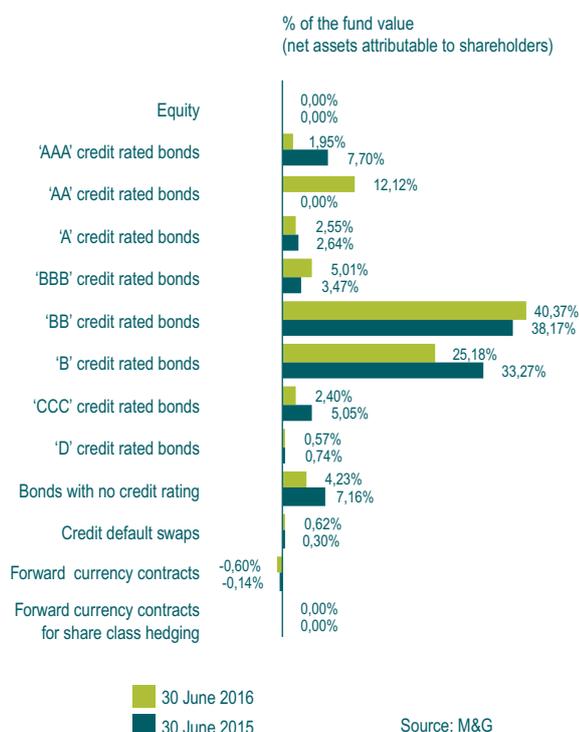
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G European High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



Investments

Portfolio statement

as at 30 June Holding	2016 €'000	2016 %	2015 %
Equity	3	0,00	0,00
5.628.959 New World Resources	3	0,00	
Debt securities	118.900	94,38	98,20
'AAA' credit rated bonds	2.456	1,95	7,70
€2.400.000 Germany (Federal Republic of) 0% 2020	2.456	1,95	
'AA' credit rated bonds	15.272	12,12	0,00
\$4.000.000 US Treasury 0,625% 2017 (30 Sep)	3.591	2,85	
\$5.000.000 US Treasury 0,625% 2017 (31 Aug)	4.489	3,56	
\$5.000.000 US Treasury 0,75% 2017	4.495	3,57	
\$3.000.000 US Treasury 0,75% 2018	2.697	2,14	
'A' credit rated bonds	3.213	2,55	2,64
€3.200.000 GE Capital Trust IV Var. Rate 2066 (4,625%)	3.213	2,55	
'BBB' credit rated bonds	6.317	5,01	3,47
€1.600.000 American International Group Var. Rate 2067 (4,875%)	1.584	1,25	
€2.400.000 Commerzbank 7,75% 2021	2.851	2,26	
€354.000 MPT Operating Partnership 5,75% 2020	372	0,30	
\$1.650.000 UBS Var. Rate 2023 (4,75%)	1.510	1,20	

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
'BB' credit rated bonds	50.860	40,37	38,17
€877.000 Akelius Residential Property 3,375% 2020	915	0,73	
\$1.500.000 Ally Financial 3,25% 2018	1.322	1,05	
\$750.000 Ally Financial 3,5% 2019	667	0,53	
€1.400.000 Altice Financing 6,5% 2022	1.472	1,17	
£780.000 Arrow Global Finance 7,875% 2020	955	0,76	
€250.000 Arrow Global Finance FRN 2023	249	0,20	
€196.000 Ball 3,5% 2020	211	0,17	
\$550.000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (5,919%)	488	0,39	
€1.400.000 Bank of Ireland 4,25% 2024	1.354	1,07	
\$214.000 CenturyLink 7,5% 2024	191	0,15	
\$700.000 Credit Suisse Var. Rate Perp. (7,5%)	631	0,50	
€3.040.000 Crown European Holdings 4% 2022	3.230	2,56	
€700.000 Fiat Finance & Trade 6,625% 2018	748	0,59	
€300.000 Fiat Finance & Trade 7,75% 2016	305	0,24	
€750.000 Gestamp Funding Luxembourg 3,5% 2023	764	0,61	
€2.000.000 Hanesbrands Finance 3,5% 2024	2.000	1,59	
£650.000 HBOS Capital Funding Var. Rate Perp. A (6,461%)	805	0,64	
£176.800 HSS Financing 6,75% 2019	208	0,16	
€1.143.000 Iglo Foods Bondco FRN 2020	1.117	0,89	
€1.900.000 Ineos Finance 4% 2023	1.818	1,44	
\$950.000 ING Group 6% Perp.	794	0,63	
€630.000 International Game Technology 4,125% 2020	657	0,52	
\$400.000 International Game Technology 5,625% 2020	377	0,30	
€500.000 KBC Groep NV Var. Rate Perp (5,625%)	471	0,37	
€1.190.000 KPN Var. Rate Perp. (6,125%)	1.267	1,01	
€295.000 Lincoln Finance 6,875% 2021	315	0,25	
€400.000 Lloyds Banking Group Var. Rate Perp. (6,375%)	369	0,29	
€1.152.000 Lock 7% 2021	1.164	0,92	
€1.370.000 Merlin Entertainment 2,75% 2022	1.327	1,05	
€220.000 Nationwide Building Society Var. Rate Perp. (6,875%)	248	0,20	
€1.000.000 Novalis 3% 2022	990	0,79	
€2.670.000 Oi European Group 6,75% 2020	3.099	2,45	
\$420.000 Rexam Var. Rate 2067 (6,75%)	419	0,33	
\$150.000 Sabine Pass Liquef 5,625% 2021	134	0,11	
€1.450.000 Samvardhana Motherson 4,125% 2021	1.453	1,15	
€579.000 Smurfit Kappa Acquisitions 2,75% 2025	580	0,46	
\$565.000 Smurfit Kappa Acquisitions 4,875% 2018	530	0,42	
€650.000 Smurfit Kappa Acquisitions FRN 2020	689	0,55	
€2.350.000 SPCM 2,875% 2023	2.251	1,78	
€690.000 TA Manufacturing 3,625% 2023	645	0,51	
\$1.400.000 Tenet Healthcare FRN 2020	1.247	0,99	
€488.000 The Chemours Company 6,125% 2023	386	0,31	
€1.325.000 Unicredit Var. Rate 2025 (5,75%)	1.368	1,09	
€900.000 Unitymedia Hessen 4% 2025	905	0,72	
€500.000 Unitymedia Hessen 4,625% 2026	515	0,41	
€1.458.000 Unitymedia Hessen 5,5% 2022	1.531	1,22	
€259.200 Unitymedia Hessen 5,75% 2023	273	0,22	
£316.000 William Hill 4,875% 2023	373	0,30	
€1.900.000 Wind Acquisition Finance 4% 2020	1.872	1,49	
€350.000 Wind Acquisition Finance FRN 2020 (Regs.)	339	0,27	
€210.000 Worldpay Finance 3,75% 2022	214	0,17	

M&G European High Yield Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 June Holding	2016 €'000	2016 %	2015 %
'BB' credit rated bonds (continued)			
€300.000 ZF North America Capital 2,25% 2019	307	0,24	
€1.300.000 ZF North American Capital 2,75% 2023	1.332	1,06	
€3.050.000 Ziggo Secured Finance 3,75% 2025	2.969	2,35	
'B' credit rated bonds			
	31.722	25,18	33,27
\$270.000 Agrokor 8,875% 2020	256	0,20	
€817.000 Altice Financing 7,25% 2022	821	0,65	
€145.000 Altice Financing 9% 2023	162	0,13	
€2.600.000 Ardagh Packaging Finance 4,25% 2022	2.640	2,10	
\$720.000 Ardagh Packaging FRN 2019	648	0,51	
€500.000 Areva 4,875% 2024	404	0,32	
€350.000 Bank of Ireland 7,375% Perp.	324	0,26	
€450.000 Barclays Bank Var. Rate Perp. (8%)	415	0,33	
\$200.000 Barclays Bank Var. Rate Perp. (8,25%)	174	0,14	
£222.000 Bibby Offshore Services 7,5% 2021	183	0,15	
£1.700.000 Cabot Financial Luxembourg 10,375% 2019	2.157	1,71	
\$1.300.000 Cemex 5,875% 2019	1.192	0,95	
€1.165.000 Cemex Finance 5,25% 2021	1.192	0,95	
€448.000 Cirs Funding Luxembourg 5,75% 2021	459	0,36	
£536.000 Cognita Financing 7,75% 2021	657	0,52	
€471.000 Dufry Finance 4,5% 2023	490	0,39	
£500.000 EDU UK Bond Company 8,875% 2018	572	0,45	
€429.000 eircom Finance 4,5% 2022	423	0,34	
£497.000 Entertainment One 6,875% 2022	609	0,48	
£500.000 Garfunkelux 8,5% 2022	573	0,45	
€813.000 HP Pelzer Holding 7,5% 2021	851	0,68	
£400.000 Iceland Bondco (formerly Stretford 79) 6,25% 2021	422	0,34	
£1.250.000 Intergen 7,5% 2021	1.190	0,94	
€450.000 Intesa Sanpaolo Var. Rate Perp. (7%)	412	0,33	
€1.980.000 Matterhorn Telecom 3,875% 2022	1.902	1,51	
£788.851 Mizzen Bondco 7% 2021	910	0,72	
\$476.000 Neptune Finco 10,875% 2025	487	0,39	
€1.550.000 Numericable Group 5,375% 2022	1.572	1,25	
€1.000.000 Numericable Group 5,625% 2024	1.005	0,80	
€350.000 Paprec Holding 5,25% 2022	352	0,28	
€185.000 Paprec Holding 7,375% 2023	182	0,14	
€1.588.000 Play Finance 2 6,5% 2019	1.640	1,30	
€710.000 PSPC Escrow 6% 2023	599	0,48	
\$300.000 Royal Bank of Scotland Var. Rate Perp. (7,5%)	245	0,19	
€625.000 United Group 7,875% 2020	656	0,52	
€403.000 Unitymedia Kabel 3,75% 2027 REGS	368	0,29	
CHF1.250.000 UPC Holding 6,75% 2023	1.231	0,98	
€1.420.000 VRX Escrow 4,5% 2023	1.062	0,84	
\$800.000 VTR Finance 6,875% 2024	716	0,57	
€1.100.000 Wind Acquisition Finance 7% 2021	1.070	0,84	
€523.000 Ziggo Bond Finance 4,625% 2025	499	0,40	
'CCC' credit rated bonds			
	3.020	2,40	5,05
\$1.450.000 Caesars Entertainment Resort Properties 8% 2020	1.288	1,02	
€483.000 Matterhorn Telecom 4,875% 2023	448	0,36	
€1.284.671 R&R Ice Cream 9,25% 2018	1.284	1,02	

Portfolio statement (continued)

as at 30 June Holding	2016 €'000	2016 %	2015 %
'D' credit rated bonds			
€2.070.568 Codere 8,25% 2015 ^[a]	507	0,40	
€1.370.000 Oi Brasil Holdings 5,625% 2021	207	0,17	
Bonds with no credit rating			
	5.326	4,23	7,16
€182.000 Assicurazioni Generali Var. Rate 2047 (5,5%)	187	0,15	
€600.000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%)	515	0,41	
€400.000 Banco Santander Var. Rate Perp. (6,25%)	338	0,27	
\$418.000 Codere Finance 2 PIK 5,5% 2021	353	0,28	
\$500.000 Codere Finance 2 PIK 9% 2021	446	0,35	
€255.000 Eurofins Scientific 4,875% Perp.	252	0,20	
€1.950.000 Generali Finance Var. Rate Perp. (5,479%)	1.973	1,57	
€641.964 Hellas Telecom III 8,5% 2013 ^[a]	0	0,00	
€600.000 Lehman Brothers Holdings Var. Rate 2016 (4,25%) ^[a]	0	0,00	
€602.301 New World Resources 8% 2020	6	0,00	
\$1.250.000 Société Générale Var. Rate 2020 (6%)	978	0,78	
€350.000 Unicredit Var. Rate Perp. (6,75%)	278	0,22	
Credit default swaps			
	784	0,62	0,30
€(6.000.000) Markit iTraxx Europe Xover Series 23 5 Year Dec 2020	265	0,21	
€(5.500.000) Markit iTraxx Europe Xover Series 24 5 Year Dec 2020	242	0,19	
€(4.000.000) Markit iTraxx Europe Xover Series 25 5 Year Jun 2021	234	0,19	
\$(1.500.000) Markit CDX North American High Yield Series 26 5 Year Jun 2021	43	0,03	
Forward currency contracts			
	(764)	(0,60)	(0,14)
£1.388.231 Bought for €1.733.480 (expires 27.07.16)	(55)	(0,04)	
£(9.737.775) Sold for €12.331.179 (expires 27.07.16)	555	0,44	
CHF19.519 Bought for €18.184 (expires 27.07.16)	0	0,00	
CHF(1.364.604) Sold for €1.244.177 (expires 27.07.16)	(11)	(0,01)	
\$35.862.492 Sold for €30.898.523 (expires 27.07.16)	(1.253)	(0,99)	
Portfolio of investments			
	118.923	94,40	98,36
Forward currency contracts for share class hedging			
	3	0,00	0,00
CHF60.883 Bought for €55.153 (expires 27.07.16)	1	0,00	
CHF(944) Sold for €871 (expires 27.07.16)	0	0,00	
\$1.123.694 Bought for €1.005.204 (expires 27.07.16)	2	0,00	
\$(14.004) Sold for €12.692 (expires 27.07.16)	0	0,00	
Total portfolio (notes 2c & 2d on page 6)			
	118.926	94,40	98,36
Net other assets / (liabilities)			
	7.052	5,60	1,64
Net assets attributable to shareholders			
	125.978	100,00	100,00

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

^[a] Defaulted bond.

M&G European 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 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.

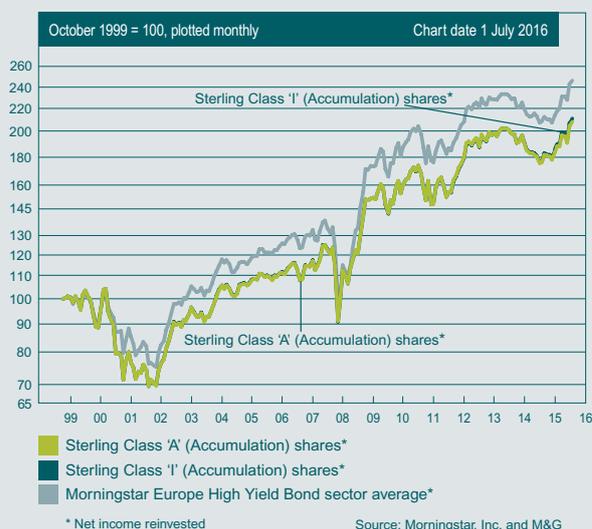
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2016 €'000	2015 €'000	2014 €'000
Fund net asset value (NAV)	125,978	124,664	170,923

Share class performance since launch

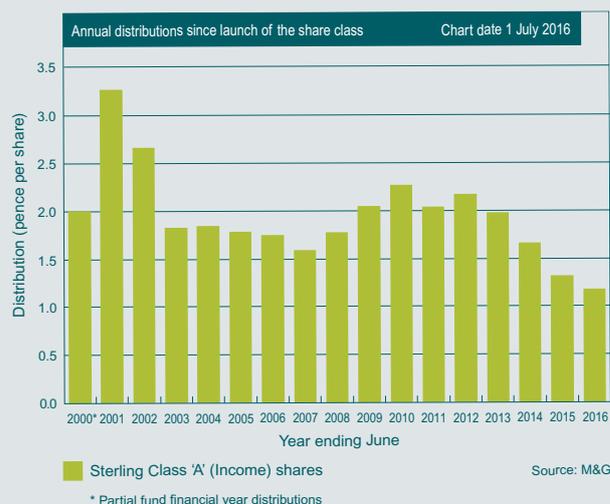
To give an indication of how the fund has performed since launch, the graph below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



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

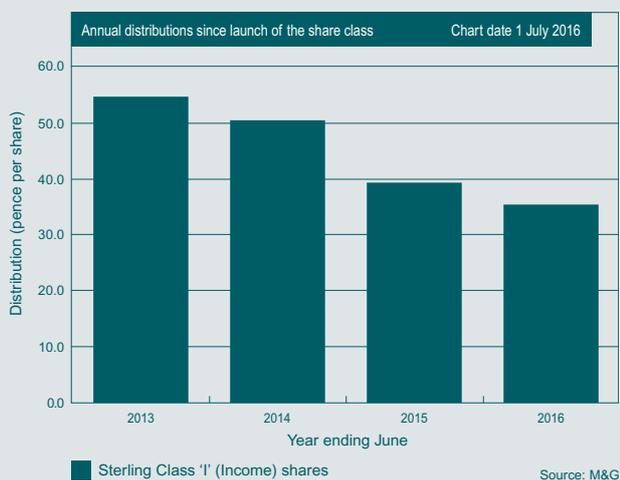


M&G European High Yield Bond Fund

Financial highlights

Fund performance

Distribution since launch (continued)



To give an indication of the long-term 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 01.07.15 % [a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+1,2	+5,1	+6,3	+7,7 [c]
Class 'B'	+0,7	n/a	n/a	+3,6 [d]
Class 'C'	+1,7	+5,6	+6,8	+7,3 [c]
Sterling [e]				
Class 'A'	+18,6	+3,4	+3,6	+8,3 [f]
Class 'I'	+19,0	+3,8	n/a	+7,6 [g]
Class 'R'	+18,8	+3,6	n/a	+7,5 [g]
Class 'X'	+18,6	+3,4	+3,6	+4,4 [h]
Swiss franc [b]				
Class 'A-H'	n/a	n/a	n/a	+0,3 [i]
Class 'C-H'	n/a	n/a	n/a	+0,7 [i]
US dollar [b]				
Class 'A-H'	+1,9	n/a	n/a	+1,7 [i]
Class 'C-H'	+2,5	n/a	n/a	+2,2 [i]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 29 November 2002, the launch date of the share class.

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

[e] Price to price with net 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] 15 October 1999, the end of the initial offer period of the predecessor unit trust.

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

[j] 8 August 2014, the launch date of the share class.

M&G European High Yield Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	1,11	1,01	0,71	0,94

[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' Income share performance

The share class was launched on 12 July 2013.

for the year to 30 June	2016	2015	2014
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	2,463,32	2,571,97	2,385,31
Return before operating charges and after direct portfolio transaction costs	60,85	31,33	347,60
Operating charges	(35,00)	(36,07)	(36,81)
Return after operating charges	25,85	(4,74)	310,79
Distributions	(90,28)	(103,91)	(124,13)
Closing NAV	2,398,89	2,463,32	2,571,97

Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,43	1,43	1,44
Return after operating charges	+1,05	-0,18	+13,03
Distribution yield	3,37	3,93	4,80
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (€'000)	2,793	2,846	1,745
Closing NAV percentage of total fund NAV (%)	2,22	2,28	1,02
Number of shares	116,430	115,512	67,850
Highest share price (Euro ¢)	2,519,90	2,594,74	2,630,01
Lowest share price (Euro ¢)	2,310,15	2,450,61	2,384,67

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	2.697,10	2.701,94	2.356,75
Return before operating charges and after direct portfolio transaction costs	67,38	33,88	382,03
Operating charges	(38,89)	(38,72)	(36,84)
Return after operating charges	28,49	(4,84)	345,19
Closing NAV	2.725,59	2.697,10	2.701,94
Retained distributions	100,20	110,82	126,63
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,43	1,43	1,44
Return after operating charges	+1,06	-0,18	+14,65
Distribution yield	3,37	3,93	4,81
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	59.501	63.716	76.110
Closing NAV percentage of total fund NAV (%)	47,23	51,11	44,52
Number of shares	2.183.046	2.362.366	2.816.881
Highest share price (Euro ¢)	2.788,19	2.771,94	2.732,09
Lowest share price (Euro ¢)	2.578,33	2.605,07	2.357,86

Euro Class 'B' Income share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	6,21	n/a	n/a
Operating charges	(16,66)	n/a	n/a
Return after operating charges	(10,45)	n/a	n/a
Distributions	(31,30)	n/a	n/a
Closing NAV	958,25	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	1,90	n/a	n/a
Return after operating charges	-1,05	n/a	n/a
Distribution yield	2,88	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	29	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,02	n/a	n/a
Number of shares	3.000	n/a	n/a
Highest share price (Euro ¢)	1.002,39	n/a	n/a
Lowest share price (Euro ¢)	922,22	n/a	n/a

Euro Class 'B' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.098,92	1.106,36	1.000,00
Return before operating charges and after direct portfolio transaction costs	27,52	13,69	128,32
Operating charges	(21,37)	(21,13)	(21,96)
Return after operating charges	6,15	(7,44)	106,36
Closing NAV	1.105,07	1.098,92	1.106,36
Retained distributions	35,28	39,69	47,04
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,92	1,92	2,04
Return after operating charges	+0,56	-0,67	+10,64
Distribution yield	2,88	3,42	4,32
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	1.658	540	288
Closing NAV percentage of total fund NAV (%)	1,32	0,43	0,17
Number of shares	150.040	49.065	26.000
Highest share price (Euro ¢)	1.130,77	1.130,59	1.118,80
Lowest share price (Euro ¢)	1.047,34	1.065,07	999,95

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	2.450,24	2.536,49	n/a
Return before operating charges and after direct portfolio transaction costs	59,85	52,88	n/a
Operating charges	(21,71)	(22,98)	n/a
Return after operating charges	38,14	29,90	n/a
Distributions	(102,32)	(116,15)	n/a
Closing NAV	2.386,06	2.450,24	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,93	0,93	n/a
Return after operating charges	+1,56	+1,18	n/a
Distribution yield	3,88	4,44	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	74	4	n/a
Closing NAV percentage of total fund NAV (%)	0,06	0,00	n/a
Number of shares	3.097	197	n/a
Highest share price (Euro ¢)	2.507,81	2.566,32	n/a
Lowest share price (Euro ¢)	2.299,25	2.438,93	n/a

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	2,566.85	2,558.61	2,220.71
Return before operating charges and after direct portfolio transaction costs	64.28	32.13	360.62
Operating charges	(24.15)	(23.89)	(22.72)
Return after operating charges	40.13	8.24	337.90
Closing NAV	2,606.98	2,566.85	2,558.61
Retained distributions	108.60	118.22	131.76
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.93	0.93	0.94
Return after operating charges	+1.56	+0.32	+15.22
Distribution yield	3.87	4.44	5.31
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	27,199	12,968	20,125
Closing NAV percentage of total fund NAV (%)	21.59	10.40	11.77
Number of shares	1,043,301	505,210	786,548
Highest share price (Euro ¢)	2,666.09	2,635.30	2,586.94
Lowest share price (Euro ¢)	2,461.42	2,470.64	2,221.75

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	37.12	43.65	42.82
Return before operating charges and after direct portfolio transaction costs	6.91	(4.29)	3.64
Operating charges	(0.56)	(0.59)	(0.64)
Return after operating charges	6.35	(4.88)	3.00
Distributions	(1.48)	(1.65)	(2.17)
Closing NAV	41.99	37.12	43.65
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.43	1.43	1.44
Return after operating charges	+17.11	-11.18	+7.01
Distribution yield	3.36	3.93	4.81
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	1,668	2,555	3,961
Closing NAV percentage of total fund NAV (%)	1.32	2.05	2.32
Number of shares	3,282,646	4,899,285	7,271,056
Highest share price (UK p)	42.29	43.80	45.39
Lowest share price (UK p)	36.81	37.38	42.43

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	87.71	99.78	94.11
Return before operating charges and after direct portfolio transaction costs	16.51	(9.95)	8.06
Operating charges	(1.32)	(1.35)	(1.42)
Return after operating charges	15.19	(11.30)	6.64
Distributions	(0.71)	(0.77)	(0.97)
Closing NAV	102.19	87.71	99.78
Retained distributions	2.82	3.06	3.87
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.43	1.43	1.44
Return after operating charges	+17.32	-11.32	+7.06
Distribution yield	3.36	3.93	4.81
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	739	3,014	3,670
Closing NAV percentage of total fund NAV (%)	0.59	2.42	2.15
Number of shares	597,640	2,444,997	2,947,500
Highest share price (UK p)	102.22	100.09	101.89
Lowest share price (UK p)	86.98	87.69	93.23

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	985.48	1,159.18	1,137.02
Return before operating charges and after direct portfolio transaction costs	183.25	(114.25)	96.57
Operating charges	(9.57)	(10.11)	(11.16)
Return after operating charges	173.68	(124.36)	85.41
Distributions	(44.60)	(49.34)	(63.25)
Closing NAV	1,114.56	985.48	1,159.18
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.93	0.93	0.94
Return after operating charges	+17.62	-10.73	+7.51
Distribution yield	3.86	4.45	5.31
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	6,878	6,889	11,713
Closing NAV percentage of total fund NAV (%)	5.46	5.53	6.85
Number of shares	509,952	497,276	809,650
Highest share price (UK p)	1,123.67	1,163.12	1,206.23
Lowest share price (UK p)	977.47	993.60	1,126.64

M&G European High Yield 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 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,121.08	1,270.42	1,194.76
Return before operating charges and after direct portfolio transaction costs	211.75	(127.16)	101.10
Operating charges	(11.03)	(11.22)	(12.10)
Return after operating charges	200.72	(138.38)	89.00
Distributions	(10.28)	(10.96)	(13.34)
Closing NAV	1,311.52	1,121.08	1,270.42
Retained distributions	41.11	43.84	53.34
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.93	0.93	0.94
Return after operating charges	+17.90	-10.89	+7.45
Distribution yield	3.86	4.45	5.30
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	9,125	12,358	22,441
Closing NAV percentage of total fund NAV (%)	7.24	9.91	13.13
Number of shares	574,966	784,202	1,415,400
Highest share price (UK p)	1,311.78	1,274.39	1,296.99
Lowest share price (UK p)	1,111.94	1,120.94	1,182.01

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	98.56	115.91	113.70
Return before operating charges and after direct portfolio transaction costs	18.33	(11.41)	9.67
Operating charges	(1.22)	(1.28)	(1.40)
Return after operating charges	17.11	(12.69)	8.27
Distributions	(4.20)	(4.66)	(6.06)
Closing NAV	111.47	98.56	115.91
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.18	1.18	1.19
Return after operating charges	+17.36	-10.95	+7.27
Distribution yield	3.61	4.19	5.07
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	71	105	95
Closing NAV percentage of total fund NAV (%)	0.06	0.09	0.06
Number of shares	52,874	76,000	66,000
Highest share price (UK p)	112.33	116.31	120.57
Lowest share price (UK p)	97.75	99.32	112.68

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	111.64	126.76	119.20
Return before operating charges and after direct portfolio transaction costs	21.07	(12.67)	10.37
Operating charges	(1.39)	(1.42)	(1.51)
Return after operating charges	19.68	(14.09)	8.86
Distributions	(0.96)	(1.03)	(1.30)
Closing NAV	130.36	111.64	126.76
Retained distributions	3.84	4.13	5.19
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.18	1.18	1.19
Return after operating charges	+17.63	-11.12	+7.43
Distribution yield	3.62	4.19	5.06
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	30	96	96
Closing NAV percentage of total fund NAV (%)	0.02	0.08	0.06
Number of shares	19,000	61,000	61,000
Highest share price (UK p)	130.39	127.16	129.44
Lowest share price (UK p)	110.72	111.63	118.15

Sterling Class 'X' Income share performance

The share class was launched on 15 October 1999.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	37.06	43.58	42.75
Return before operating charges and after direct portfolio transaction costs	6.88	(4.29)	3.64
Operating charges	(0.55)	(0.58)	(0.64)
Return after operating charges	6.33	(4.87)	3.00
Distributions	(1.48)	(1.65)	(2.17)
Closing NAV	41.91	37.06	43.58
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.43	1.43	1.44
Return after operating charges	+17.08	-11.17	+7.02
Distribution yield	3.36	3.93	4.81
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	13,367	15,666	18,473
Closing NAV percentage of total fund NAV (%)	10.61	12.57	10.81
Number of shares	26,353,309	30,079,112	33,967,879
Highest share price (UK p)	42.21	43.73	45.31
Lowest share price (UK p)	36.75	37.32	42.36

M&G European High Yield Bond Fund

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Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 October 1999.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	87,65	99,70	94,05
Return before operating charges and after direct portfolio transaction costs	16,51	(9,93)	8,05
Operating charges	(1,32)	(1,36)	(1,44)
Return after operating charges	15,19	(11,29)	6,61
Distributions	(0,71)	(0,76)	(0,96)
Closing NAV	102,13	87,65	99,70
Retained distributions	2,83	3,06	3,86
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,43	1,43	1,44
Return after operating charges	+17,33	-11,32	+7,03
Distribution yield	3,86	3,93	4,81
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	1.794	3.396	12.206
Closing NAV percentage of total fund NAV (%)	1,43	2,73	7,14
Number of shares	1.451.362	2.756.503	9.809.928
Highest share price (UK p)	102,15	100,03	101,83
Lowest share price (UK p)	86,92	87,64	93,16

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 25 September 2015.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	10,91	n/a	n/a
Operating charges	(11,40)	n/a	n/a
Return after operating charges	(0,49)	n/a	n/a
Closing NAV	999,51	n/a	n/a
Retained distributions	36,79	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	1,42	n/a	n/a
Return after operating charges	-0,05	n/a	n/a
Distribution yield	3,37	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	27	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,02	n/a	n/a
Number of shares	3.002	n/a	n/a
Highest share price (Swiss ¢)	1.022,25	n/a	n/a
Lowest share price (Swiss ¢)	946,89	n/a	n/a

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 25 September 2015.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	1.000,00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	10,76	n/a	n/a
Operating charges	(7,47)	n/a	n/a
Return after operating charges	3,29	n/a	n/a
Closing NAV	1.003,29	n/a	n/a
Retained distributions	41,80	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	n/a	n/a
Operating charges	0,93	n/a	n/a
Return after operating charges	+0,33	n/a	n/a
Distribution yield	3,88	n/a	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	28	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0,02	n/a	n/a
Number of shares	3.003	n/a	n/a
Highest share price (Swiss ¢)	1.025,83	n/a	n/a
Lowest share price (Swiss ¢)	948,68	n/a	n/a

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	971,10	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	31,96	24,88	n/a
Operating charges	(14,00)	(14,78)	n/a
Return after operating charges	17,96	10,10	n/a
Distributions	(35,63)	(39,00)	n/a
Closing NAV	953,43	971,10	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,45	1,43	n/a
Return after operating charges	+1,85	+1,01	n/a
Distribution yield	3,30	3,93	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	101	118	n/a
Closing NAV percentage of total fund NAV (%)	0,08	0,09	n/a
Number of shares	11.790	13.610	n/a
Highest share price (US ¢)	994,06	1.011,67	n/a
Lowest share price (US ¢)	913,08	963,45	n/a

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Specific share class performance

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	1.010,07	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	32,94	25,41	n/a
Operating charges	(14,76)	(15,34)	n/a
Return after operating charges	18,18	10,07	n/a
Closing NAV	1.028,25	1.010,07	n/a
Retained distributions	37,68	39,69	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,44	1,43	n/a
Return after operating charges	+1,80	+1,01	n/a
Distribution yield	3,31	3,93	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	860	358	n/a
Closing NAV percentage of total fund NAV (%)	0,68	0,29	n/a
Number of shares	93.218	39.659	n/a
Highest share price (US ¢)	1.051,05	1.036,85	n/a
Lowest share price (US ¢)	967,32	974,43	n/a

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	970,36	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	30,97	23,70	n/a
Operating charges	(9,01)	(9,35)	n/a
Return after operating charges	21,96	14,35	n/a
Distributions	(40,75)	(43,99)	n/a
Closing NAV	951,57	970,36	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,93	0,93	n/a
Return after operating charges	+2,26	+1,44	n/a
Distribution yield	3,83	4,44	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	17	17	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	2.000	2.000	n/a
Highest share price (US ¢)	993,78	1.011,75	n/a
Lowest share price (US ¢)	912,04	963,53	n/a

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	1.013,64	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	33,78	23,15	n/a
Operating charges	(9,60)	(9,51)	n/a
Return after operating charges	24,18	13,64	n/a
Closing NAV	1.037,82	1.013,64	n/a
Retained distributions	43,23	44,69	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,93	0,93	n/a
Return after operating charges	+2,39	+1,36	n/a
Distribution yield	3,82	4,44	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (€'000)	19	18	n/a
Closing NAV percentage of total fund NAV (%)	0,02	0,01	n/a
Number of shares	2.000	2.000	n/a
Highest share price (US ¢)	1.060,56	1.039,91	n/a
Lowest share price (US ¢)	974,48	975,39	n/a

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

[b] In respect of direct portfolio transaction costs.

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Statement of total return					
for the year to 30 June	Note	2016		2015	
		€'000	€'000	€'000	€'000
Income					
Net capital gains / (losses)	2		(4,461)		(22,252)
Revenue	4	6,634		7,839	
Expenses	5	(1,689)		(1,828) ^[a]	
Net revenue / (expense) before taxation		4,945		6,011	
Taxation	6	(12)		(4)	
Net revenue / (expense) after taxation			4,933		6,007
Total return before distributions			472		(16,245)
Distributions	7		(4,933)		(6,007)
Change in net assets attributable to shareholders from investment activities			(4,461)		(22,252)

Statement of change in net assets attributable to shareholders					
for the year to 30 June		2016		2015	
		€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders			124,664		170,923
Amounts received on issue of shares		76,580		42,276 ^[a]	
Amounts paid on cancellation of shares		(75,185)		(87,419) ^[a]	
			1,395		(45,143)
Dilution adjustments			410		361 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)			(4,461)		(22,252)
Retained distributions on Accumulation shares			3,969		4,173
Unclaimed distributions			1		1
Exchange differences resulting from translation to presentational currency			0		16,601
Closing net assets attributable to shareholders			125,978		124,664

Balance sheet				
as at 30 June	Note	2016	2015	
		€'000	€'000	
Assets				
Fixed assets				
Investments		120,245	122,823	
Current assets				
Debtors	8	2,263	2,125	
Cash and bank balances	9	6,151	1,030	
Total assets		128,659	125,978	
Liabilities				
Investment liabilities		(1,319)	(208)	
Creditors				
Distribution payable		(291)	(398) ^[a]	
Other creditors	10	(1,071)	(708) ^[a]	
Total liabilities		(2,681)	(1,314)	
Net assets attributable to shareholders		125,978	124,664	

[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling €410,000 (2015: €361,000) have been reclassified from 'Amounts received on issue of shares' of €273,000 (2015: €73,000) and 'Amounts paid on cancellation of shares' of €137,000 (2015: €288,000).

Interest payable of €26,000 (2015: €3,000) has been reclassified from 'Distributions' into 'Expenses'.

Income tax payable of €106,000 (2015: €179,000) has been reclassified from 'Other creditors' into 'Distribution payable'.

Additionally, on 1 July 2015 the fund changed its functional and presentational currency from UK sterling to euros to better reflect the currency of its primary economic environment. The results for the current period have therefore been prepared and presented in euros. For comparability the results of the prior period have been translated from UK sterling to be presented in euros. The change in presentational currency represents a change in accounting policy which has been retrospectively applied.

Assets and liabilities have been translated into euros at the closing exchange rates. The impact of the change in presentation to euros in both periods was €nil for all 'Balance sheet' items. The table below shows the net assets attributable to shareholders in both euro and UK sterling terms for the current and prior periods:

Net assets attributable to shareholders	€'000	£'000
30 June 2014	170,923	139,960
30 June 2015	124,664	88,693
30 June 2016	125,978	104,099

All items in the 'Statement of total return' and other changes in net assets attributable to shareholders (changes in net assets) for the current period have been translated into euros at the dates of the transactions; and for the prior period these have been translated at the average rate for the period.

A new financial statement line item 'Exchange differences resulting from translation to presentational currency' has been added to the 'Statement of change in net assets attributable to shareholders'.

There is no translation adjustment in the current period, however in the prior period this was €16,601,000. This adjustment arises because of the different exchange rates used to translate balance sheet items and amounts relating to changes in net assets.

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2 Net capital gains / (losses)

for the year to 30 June	2016 €'000	2015 €'000
Non-derivative securities	(7.768)	(14.662)
Derivative contracts	1.171	(8.096)
Currency gains / (losses)	2.139	510
Transaction charges	(3)	(4)
Net capital gains / (losses)	(4.461)	(22.252)

3 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 99.

for the year to 30 June	2016 €'000	2015 €'000
a) Purchases		
Debt securities ^[a]	63.632	76.613
Total purchases after transaction costs	63.632	76.613
b) Sales		
Debt securities ^[a]	61.347	123.144
Total sales after transaction costs	61.347	123.144
c) Direct portfolio transaction costs		
There were no direct portfolio transaction costs		
d) Indirect portfolio transaction costs		
	%	%
Portfolio dealing spread ^[b]	1,11	1,01

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

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

4 Revenue

for the year to 30 June	2016 €'000	2015 €'000
Bank interest	2	1
Derivative revenue	623	497
Interest on debt securities	6.009	7.341
Total revenue	6.634	7.839

5 Expenses

for the year to 30 June	2016 €'000	2015 €'000
Payable to the ACD or associate		
Annual management charge	1.438	1.576
Administration charge	194	214
	1.632	1.790
Payable to the Depository or associate		
Depository's charge (including VAT)	12	12
Other expenses		
Audit fee (including VAT)	13	10
Interest payable	26	3
Legal fees	1	(1)
Regulatory fees	0	4
Safe custody charge	5	6
Tax fees (including VAT) ^[a]	0	4
	45	26
Total expenses	1.689	1.828

^[a] Fees of €nil (2015: €4.000) paid to overseas firms affiliated with Ernst & Young LLP.

6 Taxation

for the year to 30 June	2016 €'000	2015 €'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	12	4
Deferred tax (note 6c)	0	0
Total taxation	12	4
b) Factors affecting taxation charge for the year		
Net revenue before taxation	4.945	6.011
Corporation tax at 20%	989	1.202
Effects of:		
Interest distributions	(989)	(1.202)
Withholding tax	12	4
Total tax charge (note 6a)	12	4
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	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 (2015: 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 where applicable.

7 Distributions

for the year to 30 June	2016		2015	
	Inc ^[a] €'000	Acc ^[b] €'000	Inc ^[a] €'000	Acc ^[b] €'000
Interest distributions				
First interim	219	1.034	339	1.327
Second interim	210	1.049	301	1.041
Third interim	202	1.012	239	991
Final	185	874	205	814
Total net distributions		4.785		5.257
Income tax deducted at source		287		502
Interest distributions		5.072		5.759
Income deducted on cancellation of shares		346		478
Income received on issue of shares		(485)		(230)
Distributions		4.933		6.007

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

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8 Debtors

as at 30 June	2016 €'000	2015 €'000
Amounts receivable on issues of shares	60	0
Currency deals outstanding	0	200
Debt security interest receivable	1.723	1.910
Derivative revenue receivable	23	5
Sales awaiting settlement	457	0
Withholding tax recoverable	0	10
Total debtors	2.263	2.125

9 Cash and bank balances

as at 30 June	2016 €'000	2015 €'000
Cash held as bank balances	6.151	1.030
Total cash and bank balances	6.151	1.030

10 Other creditors

as at 30 June	2016 €'000	2015 €'000
ACD's annual management charge payable	38	31
Administration charge payable	5	4
Amounts payable on cancellation of shares	1.012	458
Currency deals outstanding	0	201
Expenses payable	16	14
Total other creditors	1.071	708

11 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: same).

12 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 13 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Euro				
Class 'A' Income (Gross)	115.512	26.836	(25.918)	116.430
Class 'A' Accumulation (Gross)	2.362.366	940.286	(1.119.606)	2.183.046
Class 'B' Income (Gross)	0	3.000	0	3.000
Class 'B' Accumulation (Gross)	49.065	112.475	(11.500)	150.040
Class 'C' Income (Gross)	197	2.900	0	3.097
Class 'C' Accumulation (Gross)	505.210	1.642.940	(1.104.849)	1.043.301
Sterling				
Class 'A' Income (Net)	4.899.285	477.623	(2.094.262)	3.282.646
Class 'A' Accumulation (Net)	2.444.997	85.538	(1.932.895)	597.640
Class 'I' Income (Net)	497.276	128.583	(115.907)	509.952
Class 'I' Accumulation (Net)	784.202	199.470	(408.706)	574.966
Class 'R' Income (Net)	76.000	0	(23.126)	52.874
Class 'R' Accumulation (Net)	61.000	0	(42.000)	19.000
Class 'X' Income (Net)	30.079.112	190.138	(3.915.941)	26.353.309
Class 'X' Accumulation (Net)	2.756.503	170.285	(1.475.426)	1.451.362
Swiss franc				
Class 'A-H' Accumulation (Gross)	0	3.002	0	3.002
Class 'C-H' Accumulation (Gross)	0	3.003	0	3.003
US dollar				
Class 'A-H' Income (Gross)	13.610	4.580	(6.400)	11.790
Class 'A-H' Accumulation (Gross)	39.659	87.863	(34.304)	93.218
Class 'C-H' Income (Gross)	2.000	0	0	2.000
Class 'C-H' Accumulation (Gross)	2.000	0	0	2.000

13 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'	3,25	n/a	1,25	n/a
Class 'B'	1,25	n/a	1,75	n/a
Class 'C'	1,25	n/a	0,75	n/a
Sterling				
Class 'A'	3,00	n/a	1,25	n/a
Class 'I'	1,00	n/a	0,75	n/a
Class 'R'	1,00	n/a	1,00	n/a
Class 'X'	nil	4,50 ^[a]	1,25	n/a
Swiss franc				
Class 'A-H'	3,25	n/a	1,25	^[b]
Class 'C-H'	1,25	n/a	0,75	^[b]
US dollar				
Class 'A-H'	3,25	n/a	1,25	^[b]
Class 'C-H'	1,25	n/a	0,75	^[b]

^[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

^[b] This charge may vary between 0,01% and 0,055%.

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14 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 7. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 8 and 10 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 5. Amounts due at the year end to the ACD in respect of the ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 10.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary have holdings totalling 0,17% (2015: 0,08%) of the fund's shares.

15 Events after the balance sheet date

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

16 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.

Valuation technique	Assets	Liabilities	Assets	Liabilities
	2016	2016	2015	2015
	€'000	€'000	€'000	€'000
Level 1	17.728	0	9.596	0
Level 2	102.517	(1.319)	113.227	(208)
Level 3	0	0	0	0
	120.245	(1.319)	122.823	(208)

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 12 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data.'

17 Risk management policies

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

18 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.

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 30 June 2016 was 12% (2015: 12%).

The lowest, highest and average utilisation of the VaR limit calculated during the financial years ended 30 June 2016 and 30 June 2015 are disclosed in the table below.

	2016	2015
for the year to 30 June	%	%
Lowest	1,98	0,56
Highest	5,10	2,87
Average	3,36	1,68

20 Credit risk

	2016	2015
as at 30 June	€'000	€'000
Investment grade securities	27.258	17.210
Below investment grade securities	86.316	96.258
Unrated securities	5.326	8.938
Other investments	26	209
Total	118.926	122.615

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21 Counterparty exposure

as at 30 June 2016	Credit default swaps €'000	Forward currency contracts €'000	Net exposure €'000
Bank of America Merrill Lynch	66	0	66
Barclays	88	0	88
Credit Suisse	630	0	630
State Street Bank	0	(761)	(761)
Total	784	(761)	23

as at 30 June 2015	Credit default swaps €'000	Forward currency contracts €'000	Net exposure €'000
Credit Suisse	377	0	377
State Street Bank	0	(167)	(167)
Total	377	(167)	210

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 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 €'000	2016 %	2015 €'000	2015 %
Lowest	124.835	125	145.736	85
Highest	231.502	169	285.597	172
Average	174.796	135	189.246	133

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	01.07.15	30.09.15	01.10.15	30.11.15
Second interim	01.10.15	31.12.15	04.01.16	29.02.16
Third interim	01.01.16	31.03.16	01.04.16	31.05.16
Final	01.04.16	30.06.16	01.07.16	31.08.16

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' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
First interim	23,8440	-	23,8440	-	23,8440	29,0576
Second interim	23,1814	-	23,1814	-	23,1814	27,7899
Third interim	22,8679	-	22,8679	-	22,8679	24,5097
Final	20,3835	-	20,3835	-	20,3835	22,5548
Group 2						
First interim	1,4143	-	1,4143	22,4297	23,8440	29,0576
Second interim	13,0279	-	13,0279	10,1535	23,1814	27,7899
Third interim	12,1133	-	12,1133	10,7546	22,8679	24,5097
Final	14,3932	-	14,3932	5,9903	20,3835	22,5548

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
First interim	26,1064	-	26,1064	-	26,1064	30,5194
Second interim	25,6415	-	25,6415	-	25,6415	29,4968
Third interim	25,5099	-	25,5099	-	25,5099	26,3204
Final	22,9409	-	22,9409	-	22,9409	24,4784
Group 2						
First interim	12,4647	-	12,4647	13,6417	26,1064	30,5194
Second interim	9,0214	-	9,0214	16,6201	25,6415	29,4968
Third interim	14,1027	-	14,1027	11,4072	25,5099	26,3204
Final	14,9410	-	14,9410	7,9999	22,9409	24,4784

Euro Class 'B' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
First interim	8,4084	-	8,4084	-	8,4084	n/a
Second interim	8,0535	-	8,0535	-	8,0535	n/a
Third interim	7,9378	-	7,9378	-	7,9378	n/a
Final	6,8986	-	6,8986	-	6,8986	n/a
Group 2						
First interim	8,4084	-	8,4084	0,0000	8,4084	n/a
Second interim	8,0535	-	8,0535	0,0000	8,0535	n/a
Third interim	7,9378	-	7,9378	0,0000	7,9378	n/a
Final	6,8986	-	6,8986	0,0000	6,8986	n/a

M&G European High Yield Bond Fund

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23 Interest distribution tables (continued)

Euro Class 'B' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	€	€	€	€	€	€
Group 1						
First interim	9,2332	-	9,2332	-	9,2332	11,0680
Second interim	9,1305	-	9,1305	-	9,1305	10,6775
Third interim	9,0215	-	9,0215	-	9,0215	9,3507
Final	7,8904	-	7,8904	-	7,8904	8,5980
Group 2						
First interim	2,9467	-	2,9467	6,2865	9,2332	11,0680
Second interim	2,7712	-	2,7712	6,3593	9,1305	10,6775
Third interim	6,9735	-	6,9735	2,0480	9,0215	9,3507
Final	4,9906	-	4,9906	2,8998	7,8904	8,5980

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	€	€	€	€	€	€
Group 1						
First interim	26,9628	-	26,9628	-	26,9628	32,1428
Second interim	26,0761	-	26,0761	-	26,0761	30,5545
Third interim	25,7694	-	25,7694	-	25,7694	27,3636
Final	23,5166	-	23,5166	-	23,5166	26,0852
Group 2						
First interim	26,9628	-	26,9628	0,0000	26,9628	32,1428
Second interim	26,0761	-	26,0761	0,0000	26,0761	30,5545
Third interim	25,7694	-	25,7694	0,0000	25,7694	27,3636
Final	1,3274	-	1,3274	22,1892	23,5166	26,0852

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	€	€	€	€	€	€
Group 1						
First interim	28,1900	-	28,1900	-	28,1900	32,2016
Second interim	27,5660	-	27,5660	-	27,5660	31,2105
Third interim	27,5560	-	27,5560	-	27,5560	28,2898
Final	25,2833	-	25,2833	-	25,2833	26,5166
Group 2						
First interim	7,4518	-	7,4518	20,7382	28,1900	32,2016
Second interim	12,4445	-	12,4445	15,1215	27,5660	31,2105
Third interim	12,0429	-	12,0429	15,5131	27,5560	28,2898
Final	11,7926	-	11,7926	13,4907	25,2833	26,5166

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	0,3728	0,0746	0,2982	-	0,2982	0,3832
Second interim	0,3605	0,0721	0,2884	-	0,2884	0,3664
Third interim	0,3825	0,0765	0,3060	-	0,3060	0,3012
Final	0,3625	0,0725	0,2900	-	0,2900	0,2716
Group 2						
First interim	0,2299	0,0460	0,1839	0,1143	0,2982	0,3832
Second interim	0,1693	0,0339	0,1354	0,1530	0,2884	0,3664
Third interim	0,1879	0,0376	0,1503	0,1557	0,3060	0,3012
Final	0,1826	0,0365	0,1461	0,1439	0,2900	0,2716

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	0,8810	0,1762	0,7048	-	0,7048	0,8756
Second interim	0,8545	0,1709	0,6836	-	0,6836	0,8460
Third interim	0,9155	0,1831	0,7324	-	0,7324	0,7012
Final	0,8780	0,1756	0,7024	-	0,7024	0,6376
Group 2						
First interim	0,5448	0,1090	0,4358	0,2690	0,7048	0,8756
Second interim	0,4055	0,0811	0,3244	0,3592	0,6836	0,8460
Third interim	0,3593	0,0719	0,2874	0,4450	0,7324	0,7012
Final	0,4199	0,0840	0,3359	0,3665	0,7024	0,6376

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	11,1988	2,2398	8,9590	-	8,9590	11,3304
Second interim	10,8200	2,1640	8,6560	-	8,6560	10,8616
Third interim	11,4855	2,2971	9,1884	-	9,1884	9,0376
Final	11,0910	2,2182	8,8728	-	8,8728	8,2400
Group 2						
First interim	5,6651	1,1330	4,5321	4,4269	8,9590	11,3304
Second interim	5,8324	1,1665	4,6659	3,9901	8,6560	10,8616
Third interim	3,8458	0,7692	3,0766	6,1118	9,1884	9,0376
Final	6,3900	1,2780	5,1120	3,7608	8,8728	8,2400

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	12,7360	2,5472	10,1888	-	10,1888	12,4204
Second interim	12,4235	2,4847	9,9388	-	9,9388	12,0304
Third interim	13,2825	2,6565	10,6260	-	10,6260	10,0936
Final	12,9465	2,5893	10,3572	-	10,3572	9,2912
Group 2						
First interim	5,9461	1,1892	4,7569	5,4319	10,1888	12,4204
Second interim	6,7180	1,3436	5,3744	4,5644	9,9388	12,0304
Third interim	4,5121	0,9024	3,6097	7,0163	10,6260	10,0936
Final	7,9894	1,5979	6,3915	3,9657	10,3572	9,2912

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	p	p	p	p	p	p
Group 1						
First interim	1,0555	0,2111	0,8444	-	0,8444	1,0748
Second interim	1,0225	0,2045	0,8180	-	0,8180	1,0308
Third interim	1,0830	0,2166	0,8664	-	0,8664	0,8516
Final	1,0360	0,2072	0,8288	-	0,8288	0,7728
Group 2						
First interim	0,4059	0,0812	0,3247	0,5197	0,8444	1,0748
Second interim	0,3996	0,0799	0,3197	0,4983	0,8180	1,0308
Third interim	0,4371	0,0874	0,3497	0,5167	0,8664	0,8516
Final	0,4105	0,0821	0,3284	0,5004	0,8288	0,7728

M&G European High Yield Bond Fund

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23 Interest distribution tables (continued)

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	p	p	p	p	p	p
First interim	1,1970	0,2394	0,9576	-	0,9576	1,1752
Second interim	1,1665	0,2333	0,9332	-	0,9332	1,1380
Third interim	1,2265	0,2453	0,9812	-	0,9812	0,9496
Final	1,2080	0,2416	0,9664	-	0,9664	0,8688
Group 2						
First interim	1,1970	0,2394	0,9576	0,0000	0,9576	1,1752
Second interim	1,1665	0,2333	0,9332	0,0000	0,9332	1,1380
Third interim	1,2265	0,2453	0,9812	0,0000	0,9812	0,9496
Final	1,2080	0,2416	0,9664	0,0000	0,9664	0,8688

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	p	p	p	p	p	p
First interim	0,3720	0,0744	0,2976	-	0,2976	0,3828
Second interim	0,3605	0,0721	0,2884	-	0,2884	0,3660
Third interim	0,3820	0,0764	0,3056	-	0,3056	0,3008
Final	0,3625	0,0725	0,2900	-	0,2900	0,2712
Group 2						
First interim	0,1591	0,0318	0,1273	0,1703	0,2976	0,3828
Second interim	0,1629	0,0326	0,1303	0,1581	0,2884	0,3660
Third interim	0,1489	0,0298	0,1191	0,1865	0,3056	0,3008
Final	0,1476	0,0295	0,1181	0,1719	0,2900	0,2712

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	p	p	p	p	p	p
First interim	0,8798	0,1760	0,7038	-	0,7038	0,8752
Second interim	0,8585	0,1717	0,6868	-	0,6868	0,8452
Third interim	0,9160	0,1832	0,7328	-	0,7328	0,6996
Final	0,8775	0,1755	0,7020	-	0,7020	0,6352
Group 2						
First interim	0,4814	0,0963	0,3851	0,3187	0,7038	0,8752
Second interim	0,3888	0,0778	0,3110	0,3758	0,6868	0,8452
Third interim	0,4289	0,0858	0,3431	0,3897	0,7328	0,6996
Final	0,6244	0,1249	0,4995	0,2025	0,7020	0,6352

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	¢	¢	¢	¢	¢	¢
First interim	9,7951	-	9,7951	-	9,7951	n/a
Second interim	9,3378	-	9,3378	-	9,3378	n/a
Third interim	9,2973	-	9,2973	-	9,2973	n/a
Final	8,3570	-	8,3570	-	8,3570	n/a
Group 2						
First interim	9,7951	-	9,7951	0,0000	9,7951	n/a
Second interim	9,3378	-	9,3378	0,0000	9,3378	n/a
Third interim	9,2973	-	9,2973	0,0000	9,2973	n/a
Final	8,3570	-	8,3570	0,0000	8,3570	n/a

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	¢	¢	¢	¢	¢	¢
First interim	11,0179	-	11,0179	-	11,0179	n/a
Second interim	10,5776	-	10,5776	-	10,5776	n/a
Third interim	10,5334	-	10,5334	-	10,5334	n/a
Final	9,6669	-	9,6669	-	9,6669	n/a
Group 2						
First interim	11,0179	-	11,0179	0,0000	11,0179	n/a
Second interim	10,5776	-	10,5776	0,0000	10,5776	n/a
Third interim	10,5334	-	10,5334	0,0000	10,5334	n/a
Final	9,6669	-	9,6669	0,0000	9,6669	n/a

US dollar Class 'A-H' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	¢	¢	¢	¢	¢	¢
First interim	9,4597	-	9,4597	-	9,4597	10,7070
Second interim	8,9151	-	8,9151	-	8,9151	10,4730
Third interim	9,1955	-	9,1955	-	9,1955	8,9123
Final	8,0581	-	8,0581	-	8,0581	8,9109
Group 2						
First interim	6,3257	-	6,3257	3,1340	9,4597	10,7070
Second interim	0,0325	-	0,0325	8,8826	8,9151	10,4730
Third interim	9,1955	-	9,1955	0,0000	9,1955	8,9123
Final	8,0581	-	8,0581	0,0000	8,0581	8,9109

US dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	¢	¢	¢	¢	¢	¢
First interim	9,8813	-	9,8813	-	9,8813	10,7095
Second interim	9,4576	-	9,4576	-	9,4576	10,5729
Third interim	9,7433	-	9,7433	-	9,7433	9,1779
Final	8,6015	-	8,6015	-	8,6015	9,2270
Group 2						
First interim	1,9676	-	1,9676	7,9137	9,8813	10,7095
Second interim	1,7854	-	1,7854	7,6722	9,4576	10,5729
Third interim	9,7433	-	9,7433	0,0000	9,7433	9,1779
Final	2,1970	-	2,1970	6,4045	8,6015	9,2270

M&G European High Yield Bond Fund

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23 Interest distribution tables (continued)

US dollar Class 'C-H' Income shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	€	€	€	€	€	€
First interim	10,7599	-	10,7599	-	10,7599	11,9408
Second interim	10,2653	-	10,2653	-	10,2653	11,5455
Third interim	10,4223	-	10,4223	-	10,4223	10,2255
Final	9,3010	-	9,3010	-	9,3010	10,2819
Group 2						
First interim	10,7599	-	10,7599	0,0000	10,7599	11,9408
Second interim	10,2653	-	10,2653	0,0000	10,2653	11,5455
Third interim	10,4223	-	10,4223	0,0000	10,4223	10,2255
Final	9,3010	-	9,3010	0,0000	9,3010	10,2819

US dollar Class 'C-H' Accumulation shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution	
	2016	2016	2016	2016	2016	2015
Group 1	€	€	€	€	€	€
First interim	11,2400	-	11,2400	-	11,2400	11,9490
Second interim	10,8142	-	10,8142	-	10,8142	11,8249
Third interim	11,1330	-	11,1330	-	11,1330	10,3015
Final	10,0380	-	10,0380	-	10,0380	10,6129
Group 2						
First interim	11,2400	-	11,2400	0,0000	11,2400	11,9490
Second interim	10,8142	-	10,8142	0,0000	10,8142	11,8249
Third interim	11,1330	-	11,1330	0,0000	11,1330	10,3015
Final	10,0380	-	10,0380	0,0000	10,0380	10,6129

M&G Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment objective and policy

The portfolio is normally limited to shares of investment trust companies. These shares provide a wide spread of investment in the UK and overseas stockmarkets and are often available at substantial discounts in relation to underlying asset values. Income is not a major factor, and the yield can be expected to be slightly less than the average for investment trust companies.

Investment approach

The M&G Fund of Investment Trust Shares is a diversified portfolio of approximately 60 investment companies with exposure to the UK and overseas. The fund manager uses his judgement to decide upon areas and investment vehicles from which long-term growth (over five years or more) can be obtained. Additional criteria used include the investment philosophy and objective of the underlying holdings and the ability of each manager to deliver on them; and the discount at which its shares are trading. Holdings may be sold if there is a change in the fund manager's view; a failure of the underlying company to deliver on stated objectives; corporate activity, which leads the fund manager to take profits; or if the fund manager believes a holding has become overvalued.

Risk profile

The fund invests in the shares of investment trust companies and is exposed to a wide spread of investments in the UK and overseas stockmarkets. The fund is, therefore, subject to the price volatility of the global stockmarkets and the performance of individual investment trust companies. The fund is also subject to fluctuations in currency exchange rates. Diversification across markets, industries and asset classes is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 July 2016, for the year ended 30 June 2016

Performance against objective

The M&G Fund of Investment Trust Shares continued to be invested in accordance with its investment objective over the period under review.

Between 1 July 2015 (the start of the review period) and 1 July 2016, total returns (the combination of capital growth and income) from the fund's Sterling Class 'A' and 'X' share classes were broadly flat.^[a] In comparison, the FTSE All-Share Equity Investment Instruments Index, which is an index of comparable investment trusts, rose by 1.9%.

Investment performance

Share prices of companies around the world experienced a turbulent 12 months as concerns persisted that weaker economic growth in China would jeopardise the global recovery. A range of factors also dampened investors' mood: weakness in the price of oil and other commodities, speculation about the direction of US monetary policy and the refugee crisis facing Europe. In addition, investor caution increased in the run-up to the UK referendum on European Union (EU) membership on 23 June, with an unexpected 'leave' vote leading to severe stockmarket volatility in the immediate aftermath in the UK, Europe and further afield.

Investors' sentiment was more resilient at times, most notably in October as a number of central banks indicated their readiness to pursue accommodative measures. Early spring also brought greater optimism as investors responded to a small increase in the price of oil and other commodities.

In this environment, the FTSE World Index declined modestly in US dollar and euro terms over the 12 months, but the weakness of sterling against these and other currencies meant that the index registered robust gains of 14.6% in sterling terms.

Even without these currency movements, the US was one of the stronger markets over the 12-month review period. This healthy performance is particularly pertinent for the fund and other investment trusts, which are less able to benefit from the strength in this market as they have only a relatively small allocation to US assets, compared with the FTSE World Index. This is mainly because there are only a few investment trusts solely focused on the US. Furthermore, in a largely 'risk-off' environment, investors in US company shares, or equities, generally favoured very large, good-quality stocks deemed to be safer assets, which bolstered the US market and in turn the FTSE World Index. By contrast, the fund has no direct exposure and little, if any, indirect presence in these assets.

Meanwhile, smaller companies are generally perceived as higher risk and were largely out of favour with investors. Such assets can perform well during periods of greater optimism and the fund has a notable exposure to shares in smaller companies, which cost some performance.

In the first half of the review period, investors' attention was closely focused on the direction of monetary policy in the US. In December 2015, the US Federal Reserve raised interest rates for the first time in almost a decade, although further increases are expected to proceed at only a gradual pace. Economic data in the US continues to be broadly encouraging. The US market made a small gain over the 12 months, but the strength of the dollar translated into healthy gains in

M&G Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

sterling terms. The fund's US holdings added value overall. North Atlantic Smaller Companies Investment Trust and JPMorgan American Investment Trust contributed to performance, relative to the FTSE All-Share Equity Investment Instruments Index, while Middlefield Canadian Income Trust was neutral for returns.

Meanwhile, in Europe, investors were unimpressed by new stimulus measures from the European Central Bank (ECB) in December. However, the central bank unveiled further, greater-than-expected steps for the region in March 2016, which were well received by investors. The shock of the UK referendum outcome led to turmoil in European company shares, with investors becoming anxious about a lack of clarity over the process and impact of the UK's withdrawal on the region's economy. European banks in particular came under pressure, with some already struggling with excessive levels of bad debt. In this environment, the fund's holdings in European assets cost some performance on the whole; holdings in The European Investment Trust and Fidelity European Values detracted but a position in JPMorgan European Smaller Companies Investment Trust added value.

The UK economy is in relatively good shape, but growth is slowing. However, heightened investor caution ahead of the referendum on EU membership gave way to near panic once the result was announced. Already under pressure due to its meaningful exposure to the underperforming mining sector, the UK stockmarket declined over the 12-month review period. In this environment, performance from the fund's UK holdings was disappointing, with perceived 'riskier' assets in particular holding back returns. For example, detractors include Better Capital, which invests in troubled businesses that nevertheless have the potential to turn themselves around, and Woodford Patient Capital Trust, which is focused on life sciences and academic hubs of excellence. Meanwhile, Artemis Alpha Trust and River & Mercantile UK Micro Cap Investment also cost some performance, while Troy Income and Growth Trust added some value.

Faced with the prospect of the UK leaving the EU, investors were worried about the outlook for the UK property market and shunned these assets. As a result, holdings in TR Property Investment Trust and Ediston Property Investment detracted modestly.

For much of the period under review, markets were held back by depressed prices for commodities, including raw materials such as copper and steel, largely due to reduced demand from China. Continued weakness in the oil price was also a notable factor over the 12 months. At its lowest, the price of oil dipped below US\$30 per barrel in January 2016 because of concerns about excess supply.

However, the oil price picked up in the spring, thanks to a weaker US dollar at that time and indications that some rebalancing was taking place in the oil market. Commodity prices also received a boost at this time, due to speculation that the Chinese authorities would take further action to stimulate the economy. In terms of the fund's holdings, Blackrock World Mining Trust contributed slightly.

Worries about slower economic growth in China weighed on many Asian and emerging markets, as investors contemplated the impact of reduced demand for their products. In this environment, the fund's holdings in Aberdeen Asian Income Fund, Edinburgh Dragon Trust and Asian Total Return Investment were modest contributors.

Many emerging markets suffered during periods of risk aversion, but rallied to an extent as oil and commodity prices rebounded in the spring. Overall, the fund's exposure to these markets was slightly positive for performance, with Fundsmith Emerging Equities Trust adding value while Templeton Emerging Markets Investment Trust was neutral for returns.

In other parts of Asia, the Japanese stockmarket declined sharply over the 12 months, although the strength of the yen against the British pound meant that returns for sterling-based investors made decent gains. Despite the authorities' efforts to boost investment and domestic spending, the Japanese economy remains in the doldrums. The trust's exposure to Japanese assets added significant value, with holdings in Baillie Gifford Shin Nippon, JPMorgan Japan Smaller Companies Investment Trust and Baillie Gifford Japan Trust proving beneficial.

In order to provide greater diversification, the portfolio holds a range of different assets, such as reinsurance, infrastructure and property. A significant detractor from these 'specialist' holdings was Biotech Growth Trust, which invests in the global biotechnology industry, with an emphasis on emerging companies. However, the holding has generated good performance in the past and we are still comfortable with the position. Meanwhile, featuring among the contributors were Bilfinger Berger Global Infrastructure Fund (BBGI), CATCo Reinsurance Opportunities Fund and peer-to-peer lender P2P Global Investments. BBGI offers exposure to global infrastructure projects, while CATCo provides reinsurance for insurers, rather than the general public, covering natural disasters.

Investment activities

We started a new holding in Witan, a very large investment trust that sits in the global growth sector. We were impressed with Witan's manager, who has been at the helm since 2010, and we bought the holding at an attractive discount. Similarly, we were able to top up an existing position in Mercantile Investment Trust, which has a focus on medium and smaller sized UK companies, at favourable levels. We reduced positions in Better Capital, JPMorgan Global Convertibles and Scottish Mortgage Investment Trust in order to fund these purchases.

In other transactions, we took part in some placings (that is the sale of securities to a small number of institutional investors). These placings involved topping up existing holdings in River & Mercantile UK Micro Cap Investment Company and Ediston Property Investment Company, which we continue to believe have good potential. Such share placings are usually at a discount to the prevailing market price.

Meanwhile, we started a small position in P2P Global Investments. The company uses an internet platform that enables it to connect people who have capital with those who need it.

As part of a consolidation programme, we reduced some positions that have disappointed or that we feel now have less potential for good performance. For example, we sold the holding in Aberdeen Japan Investment Trust and scaled back exposure to JPMorgan Japan Smaller Companies Investment Trust. Similarly, we sold the holding in Troy Income & Growth Trust, which added value during the period under review, as we felt there was little potential for future gains and better opportunities lay elsewhere.

In other transactions, we decreased some positions following good performance in order to lock in profits. This involved reducing the holdings in Baillie Gifford Shin Nippon and Miton Global Opportunities.

M&G Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment review

Outlook

The global economy continues to grow, although progress is mixed and the potential for a slowdown in Chinese expansion threatens to hold back the economic recovery, especially in Asian and emerging markets. Elsewhere, the US and euro area economies are advancing modestly, while indicators have pointed to a softening in UK economic growth this year.

However, political and economic prospects for the UK and Europe are uncertain as the repercussions of the UK's vote to leave the EU are far from clear. Both markets may well be subject to considerable stockmarket volatility, at least in the short term. This is likely to continue until there is greater clarity in the weeks and months ahead, particularly about the expected implications for business and the resilience of the UK and EU economies. Meanwhile, before long, investors will start to focus on the US presidential election in November, which is likely to lead to an increase in volatility if the polls remain close between the two candidates.

The fund's broad spread of geographic regions, industries and company sizes, as well as specialist assets, is intended to provide access to any potentially strong performances. At the same time, this approach aims to provide some protection against unexpected disappointments. In our view, despite the likelihood of short-term volatility, the fund's diversification could help to produce favourable returns for investors over the longer term.

Richard O'Connor
Fund manager

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

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

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

Investments

Portfolio statement

as at 30 June Holding	2016 £'000	2016 %	2015 ^[a] %
Global	7,953	25,87	24,35
110.000 Alliance Trust	568	1,85	
500.000 BACIT Investment Trust	643	2,09	
31.000 Caledonia Investments	695	2,26	
38.000 Hansa Trust 'A' shares	260	0,84	
422.000 Miton Worldwide Growth Investment Trust	696	2,26	
234.000 Monks Investment Trust	995	3,24	
1.192 Personal Assets Trust	449	1,46	
50.000 RIT Capital Partners	813	2,65	
325.000 Ruffer Investment Company Red. Pref. shares	674	2,19	
534.000 Scottish Mortgage Investment Trust	1,409	4,59	
101.300 Witan Investment Trust	751	2,44	
UK all companies	2,048	6,66	6,86
190.000 Artemis Alpha Trust	407	1,32	
125.000 Better Capital PCC	39	0,13	
40.000 Keystone Investment Trust	638	2,07	
40.991 Mercantile Investment Trust	596	1,94	
435.000 Woodford Patient Capital Trust	368	1,20	
UK equity income	1,270	4,13	4,90
113.400 Finsbury Growth & Income Trust	672	2,18	
251.710 Value & Income Trust	598	1,95	
UK smaller companies	760	2,47	2,34
87.000 Montanaro UK Smaller Companies Investment Trust	365	1,19	
380.000 River & Mercantile UK Micro Cap Investment Company	395	1,28	
Europe	1,830	5,96	6,59
535.000 Fidelity European Values	850	2,77	
300.000 JPMorgan European Investment Trust (income shares)	352	1,15	
100.000 The European Investment Trust	628	2,04	
European smaller companies	765	2,49	2,50
295.000 JPMorgan European Smaller Companies Investment Trust	765	2,49	
North America	1,868	6,08	5,64
500.000 Gabelli Value Plus Trust	490	1,59	
330.000 JPMorgan American Investment	995	3,24	
460.000 Middlefield Canadian Income PCC	383	1,25	
North American smaller companies	669	2,18	2,30
32.000 North Atlantic Smaller Companies Investment Trust	669	2,18	
Global emerging markets	1,856	6,04	5,81
58.000 Aberdeen Emerging Market (formerly Advance Developing Markets Trust)	251	0,82	
1.070.000 Aberdeen Frontier Markets (formerly Advance Frontier Markets Fund) ^[b]	604	1,97	
50.000 Fundsmith Emerging Equities Trust	503	1,63	
100.000 Templeton Emerging Markets Investment Trust	498	1,62	
Asia Pacific - excluding Japan	2,248	7,31	6,99
387.000 Aberdeen Asian Income Fund	677	2,20	
104.802 Asian Total Return	224	0,73	
310.000 Edinburgh Dragon Trust	842	2,74	
382.500 Weiss Korea Opportunity Fund ^[b]	505	1,64	

M&G Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 ^[a] %
Japan	782	2,54	2,56
163.000 Baillie Gifford Japan Trust	782	2,54	
Japanese smaller companies	1,378	4,48	4,23
130.000 Baillie Gifford Shin Nippon	729	2,37	
220.000 JPMorgan Japan Smaller Companies Investment Trust	649	2,11	
Private equity	1,504	4,89	5,29
303.000 F&C Private Equity Trust	728	2,37	
60.000 Pantheon International Participations	776	2,52	
Property	1,351	4,40	3,86
350.000 Ediston Property Investment Company	354	1,15	
353.000 TR Property Investment Trust	997	3,25	
Specialist	4,347	14,14	13,88
630.000 BBGI (formerly Bilfinger Berger Global Infrastructure Fund)	891	2,90	
100.000 Biotech Growth Trust	604	1,97	
136.000 BlackRock World Mining Trust	358	1,16	
359.538 CATCo Reinsurance Opportunities Fund	323	1,05	
140.462 CATCo Reinsurance Opportunities Fund 'C'	104	0,34	
465.000 Ecofin Water & Power Opportunities	587	1,91	
30.000 JPMorgan Global Convertibles Income Fund	26	0,08	
14.832 P2P Global Investments	123	0,40	
130.000 Polar Capital Technology Trust	792	2,58	
278.000 Utilico Emerging Markets	530	1,72	
55.600 Utilico Emerging Markets (Subscription shares)	9	0,03	
Unquoted / unlisted	0	0,00	0,00
75.000 Bioscience Investment Trust	0	0,00	
2.000.000 M&G Equity Investment Trust (capital shares)	0	0,00	
1.305.397 M&G Equity Investment Trust (income shares)	0	0,00	
\$26.744 Thompson Clive Investment Trust	0	0,00	
Futures	(4)	(0,01)	(0,04)
3 E-Mini S&P 500 Sep 2016	(4)	(0,01)	
Portfolio of investments	30.625	99,63	98,06
'AAA' rated money market funds ^[c]	150	0,49	1,87
150.000 Northern Trust Global Fund - Sterling	150	0,49	
Total portfolio (notes 2c & 2d on page 6)	30.775	100,12	99,93
Net other assets / (liabilities)	(38)	(0,12)	0,07
Net assets attributable to shareholders	30.737	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] AIM listed.

^[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 30 June 2016

Purchases	£'000
Witan Investment Trust	749
Mercantile Investment Trust	172
P2P Global Investments	150
Ediston Property Investment Company	108
River & Mercantile UK Micro Cap Investment Company	94
Catco Reinsurance Opportunities Fund	92
BBGI (formerly Bilfinger Berger Global Infrastructure Fund)	19
Total purchases	1,384
Largest sales	£'000
Troy Income & Growth Trust	343
JPMorgan Global Convertibles Income Fund	286
Baillie Gifford Shin Nippon	265
Lazard World Trust Fund	220
North Atlantic Smaller Companies Investment Trust	180
Scottish Mortgage Investment Trust	175
JPMorgan Japan Smaller Companies Investment Trust	163
JPMorgan European Smaller Companies Investment Trust	130
Alliance Trust	109
Miton Worldwide Growth Investment Trust	108
Other sales	946
Total sales	2,925

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

M&G Fund of Investment Trust Shares

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 graphs 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, please be aware that their performance may be different.

Fund level performance

Fund net asset value			
as at 30 June	2016 £'000	2015 £'000	2014 £'000
Fund net asset value (NAV)	30,737	33,137	33,059

Share class performance since launch

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



Ten-year performance

Please note that the fund's comparative index is not available from inception, however a ten-year comparable performance chart is shown below.



To give an indication of the long-term 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 01.07.15 % [a]	Three Years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+0,2	+6,4	+5,7	+9,7 [c]
Class 'X'	-0,3	+5,9	+5,2	+8,3 [d]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 10 May 1968, the end of the initial offer period of the predecessor unit trust.

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

M&G Fund of Investment Trust Shares

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2016	2015	2014	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0,01	0,01	0,01	0,01
Taxes	0,01	0,00	0,01	0,01
Costs before dilution adjustments	0,02	0,01	0,02	0,02
Dilution adjustments ^[c]	(0,01)	(0,01)	(0,02)	(0,01)
Total direct portfolio transaction costs	0,01	0,00	0,00	0,01
as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	1,23	1,06	0,75	1,01

^[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 Fund of Investment Trust Shares

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 10 May 1968.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,762,05	1,665,13	1,468,14
Return before operating charges and after direct portfolio transaction costs	20,43	128,04	226,41
Operating charges	(20,70)	(20,70)	(19,13)
Return after operating charges	(0,27)	107,34	207,28
Distributions	(13,57)	(10,42)	(10,29)
Closing NAV	1,748,21	1,762,05	1,665,13

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,41	0,23	0,27
Dilution adjustments ^[b]	(0,21)	(0,17)	(0,27)
Total direct portfolio transaction costs	0,20	0,06	0,00

Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,00	0,00
Operating charges	1,20	1,19	1,19
Return after operating charges	-0,02	+6,45	+14,12
Historic yield	0,75	0,60	0,62
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	11,947	12,704	12,454
Closing NAV percentage of total fund NAV (%)	38,87	38,34	37,66
Number of shares	683,381	720,967	747,937
Highest share price (UK p)	1,807,56	1,844,16	1,669,68
Lowest share price (UK p)	1,574,61	1,559,11	1,463,68

Sterling Class 'A' Accumulation share performance

The share class was launched on 10 May 1968.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	4,010,72	3,767,59	3,301,25
Return before operating charges and after direct portfolio transaction costs	46,38	289,99	509,41
Operating charges	(47,15)	(46,86)	(43,07)
Return after operating charges	(0,77)	243,13	466,34
Closing NAV	4,009,95	4,010,72	3,767,59
Retained distributions	30,92	23,61	23,18

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,93	0,51	0,62
Dilution adjustments ^[b]	(0,48)	(0,38)	(0,62)
Total direct portfolio transaction costs	0,45	0,13	0,00

Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,00	0,00
Operating charges	1,20	1,19	1,19
Return after operating charges	-0,02	+6,45	+14,13
Historic yield	0,75	0,60	0,62
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	17,294	18,924	19,335
Closing NAV percentage of total fund NAV (%)	56,27	57,11	58,49
Number of shares	431,292	471,844	513,195
Highest share price (UK p)	4,114,09	4,183,73	3,763,95
Lowest share price (UK p)	3,592,58	3,527,79	3,291,14

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,770,86	1,673,53	1,475,78
Return before operating charges and after direct portfolio transaction costs	20,32	128,69	227,44
Operating charges	(29,46)	(29,55)	(27,37)
Return after operating charges	(9,14)	99,14	200,07
Distributions	(4,95)	(1,81)	(2,32)
Closing NAV	1,756,77	1,770,86	1,673,53

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,41	0,23	0,28
Dilution adjustments ^[b]	(0,21)	(0,17)	(0,28)
Total direct portfolio transaction costs	0,20	0,06	0,00

Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,00	0,00
Operating charges	1,70	1,69	1,69
Return after operating charges	-0,52	+5,92	+13,56
Historic yield	0,27	0,14	0,14
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	902	839	703
Closing NAV percentage of total fund NAV (%)	2,93	2,53	2,13
Number of shares	51,355	47,347	42,003
Highest share price (UK p)	1,816,02	1,850,71	1,674,02
Lowest share price (UK p)	1,581,36	1,564,62	1,471,22

M&G Fund of Investment Trust Shares

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June	2016	2015	2014
Change in NAV per share	UK p	UK p	UK p
Opening NAV	3,788,54	3,576,68	3,149,70
Return before operating charges and after direct portfolio transaction costs	43,29	275,06	485,18
Operating charges	(62,93)	(63,20)	(58,20)
Return after operating charges	(19,64)	211,86	426,98
Closing NAV	3,768,90	3,788,54	3,576,68
Retained distributions	10,58	3,78	4,95
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,87	0,48	0,59
Dilution adjustments ^[b]	(0,45)	(0,36)	(0,59)
Total direct portfolio transaction costs	0,42	0,12	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,00	0,00
Operating charges	1,70	1,69	1,69
Return after operating charges	-0,52	+5,92	+13,56
Historic yield	0,27	0,14	0,14
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	594	670	567
Closing NAV percentage of total fund NAV (%)	1,93	2,02	1,72
Number of shares	15.753	17.693	15.854
Highest share price (UK p)	3.885,07	3.956,08	3.573,09
Lowest share price (UK p)	3.383,03	3.343,91	3.139,90

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

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

M&G Fund of Investment Trust Shares

Financial statements and notes

Financial statements

Statement of total return

for the year to 30 June	Note	2016		2015	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(333)		1.876
Revenue	5	636		615	
Expenses	6	(381)		(403)	
Net revenue / (expense) before taxation		255		212	
Taxation	7	0		0	
Net revenue / (expense) after taxation			255		212
Total return before distributions			(78)		2.088
Distributions	8		(236)		(195)
Change in net assets attributable to shareholders from investment activities			(314)		1.893

Statement of change in net assets attributable to shareholders

for the year to 30 June	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		33.137		33.059
Amounts received on issue of shares	528		247 ^[a]	
Amounts paid on cancellation of shares	(2.767)		(2.189) ^[a]	
		(2.239)		(1.942)
Dilution adjustments		15		11 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)		(314)		1.893
Retained distributions on Accumulation shares		137		115
Unclaimed distributions		1		1
Closing net assets attributable to shareholders		30.737		33.137

Balance sheet

as at 30 June	Note	2016 £'000	2015 £'000
Assets			
Fixed assets			
Investments		30.779	33.131
Current assets			
Debtors	9	76	63
Cash and bank balances	10	24	53
Total assets		30.879	33.247
Liabilities			
Investment liabilities		(4)	(14)
Creditors			
Distribution payable		(66)	(43)
Other creditors	11	(72)	(53)
Total liabilities		(142)	(110)
Net assets attributable to shareholders		30.737	33.137

[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling £15.000 (2015: £11.000) have been reclassified from 'Amounts received on issue of shares' of £(1.000) (2015: £nil) and 'Amounts paid on cancellation of shares' of £16.000 (2015: £11.000).

2 Distribution policy

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

3 Net capital gains / (losses)

for the year to 30 June	2016 £'000	2015 £'000
Non-derivative securities	(340)	1.807
Derivative contracts	10	65
Currency gains / (losses)	1	9
Transaction charges	(4)	(5)
Net capital gains / (losses)	(333)	1.876

M&G Fund of Investment Trust Shares

Financial statements and notes

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 30 June	2016 £'000	% of transaction	2015 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	1,379		1,480	
Taxes	5	0,36	0	0,00
Total purchases after transaction costs	1.384		1.480	
b) Sales				
Equities				
Equities before transaction costs	2,927		2,865	
Commissions	(2)	0,07	(4)	0,14
Total sales after transaction costs	2.925		2.861	
c) Direct portfolio transaction costs				
Commissions paid				
Equities	2	0,01	4	0,01
Taxes paid				
Equities	5	0,01	0	0,00
Total direct portfolio transaction costs ^[a]	7	0,02	4	0,01
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[b]		1,23		1,06

^[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 30 June	2016 £'000	2015 £'000
Distributions from underlying funds: taxable	3	0
Distributions from underlying funds: property income dividends	16	7
Dividends from equity investments: non-taxable	596	587
Interest distributions	2	4
Stock dividends	19	17
Total revenue	636	615

6 Expenses

for the year to 30 June	2016 £'000	2015 £'000
Payable to the ACD or associate		
Annual management charge	322	342
Administration charge	47	50
	369	392
Payable to the Depositary or associate		
Depositary's charge (including VAT)	3	3
Other expenses		
Audit fee (including VAT)	9	8
Total expenses	381	403

7 Taxation

for the year to 30 June	2016 £'000	2015 £'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 before taxation	255	212
Corporation tax at 20%	51	42
Effects of:		
Dividends from equity investments: non-taxable	(119)	(117)
Stock dividends not taxable	(4)	(4)
Offshore income tax gains	26	0
Current year expenses not utilised	46	79
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 £1,152,000 (2015: £1,106,000) arising as a result of having excess management expenses and interest distributions. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 30 June	2016		2015	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
Interim	30	43	34	52
Final	66	94	43	63
Total net distributions		233		192
Income deducted on cancellation of shares		4		3
Income received on issue of shares		(1)		0
Distributions		236		195
Net revenue per statement of total return				
Net revenue per statement of total return		255		212
Stock dividends not distributed		(19)		(17)
Distributions		236		195

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2016 £'000	2015 £'000
Dividends receivable	75	63
Tax recoverable	1	0
Total debtors	76	63

10 Cash and bank balances

as at 30 June	2016 £'000	2015 £'000
Amounts held at futures clearing houses and brokers	15	53
Cash held as bank balances	9	0
Total cash and bank balances	24	53

11 Other creditors

as at 30 June	2016 £'000	2015 £'000
ACD's annual management charge payable	9	8
Administration charge payable	1	1
Amounts payable on cancellation of shares	53	36
Expenses payable	9	8
Total other creditors	72	53

M&G Fund of Investment Trust Shares

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12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: 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 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Sterling				
Class 'A' Income (Net)	720,967	8,650	(46,236)	683,381
Class 'A' Accumulation (Net)	471,844	0	(40,552)	431,292
Class 'X' Income (Net)	47,347	14,100	(10,092)	51,355
Class 'X' Accumulation (Net)	17,693	3,400	(5,340)	15,753

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	n/a	1.00
Class 'X'	nil	4.50 ^[a]	1.50

^[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

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 to the ACD 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 2.20% (2015: 2.06%) 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.

Valuation technique	Assets 2016	Liabilities 2016	Assets 2015	Liabilities 2015
	£'000	£'000	£'000	£'000
Level 1	30,629	(4)	32,511	(14)
Level 2	150	0	620	0
Level 3	0	0	0	0
	30,779	(4)	33,131	(14)

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

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

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 £1,531,000 (2015: £1,625,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk

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

21 Interest rate risk

The majority of the assets are non interest bearing and therefore interest rate risk is not considered significant for the fund.

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Notes to the financial statements

22 Counterparty exposure

as at 30 June 2016	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	(4)	(15)	(19)
Total	(4)	(15)	(19)

as at 30 June 2015	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	(14)	(53)	(67)
Total	(14)	(53)	(67)

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.

23 Dividend distribution tables

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

Half yearly distribution periods

	Start	End	Xd	Payment
Interim	01.07.15	31.12.15	04.01.16	29.02.16
Final	01.01.16	30.06.16	01.07.16	31.08.16

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 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	2,0748	2,1578	4,2326	4,5754
Final	5,9576	3,3777	9,3353	5,8489

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	5,7473	3,8799	9,6272	10,3523
Final	13,6274	7,6691	21,2965	13,2626

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,0000	0,0000	nil	0,3349
Final	3,4782	1,4759	4,9541	1,4717

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,0000	0,0000	nil	0,7124
Final	8,1608	2,4187	10,5795	3,0649

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Investment objective

The Fund aims to maximise total return (the combination of income and growth of capital).

Investment policy

The portfolio will mainly consist of investment grade government debt securities, including government guaranteed debt securities, and will be invested on a global basis. The Fund's exposure to investment grade government debt may be gained through the use of derivatives. The Fund may also invest in other government and public securities, collective investment schemes, other transferable securities, other debt instruments, cash and near cash, deposits, warrants, money market instruments and other derivative instruments. The Fund may use derivatives for Efficient Portfolio Management purposes.

Investment approach

The M&G Global Government Bond Fund invests mainly in investment grade government bonds on a global basis. Its investment approach is driven primarily by the fund manager's views on macroeconomic factors such as economic growth, interest rates and inflation. This assessment determines the individual government bonds from different countries in which the manager believes the fund should invest in order to achieve its objective. It also influences the portfolio's mix of interest rate risk and currency exposure. These factors, along with the manager's selection of government bond holdings, drive the fund's long-term performance. With the active management of the fund's currency exposures being one of these drivers, its returns will include a higher degree of currency risk than domestic fixed income funds.

Risk profile

The fund invests mainly in investment grade government bonds, including government-guaranteed debt securities, on a global basis. It is, therefore, subject to the price volatility of the global bond market and the performance of individual issuers. It is also subject to fluctuations in currency exchange rates.

The fund's exposure to investment grade government debt 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.

Up to 30% of the fund's assets may be invested in non-investment grade government debt securities, which are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

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 July 2016, for the year ended 30 June 2016

Performance against objective

Between 1 July 2015 (the start of the review period) and 1 July 2016, the M&G Global Government Bond Fund produced positive returns across its different share classes.^[a] The marked movements in currency exchange rates during the period accounted for the variance in the returns between the share classes. A sharp depreciation in the value of sterling particularly boosted the returns of the sterling share classes as the fund was primarily invested in non-sterling assets. The fund's objective is to maximise total returns (the combination of income and growth of capital).

Investment performance

During the second half of 2015, a widely expected rise in US interest rates after nearly a decade of record lows was among the key investment themes in global financial markets; the Federal Reserve (Fed) finally confirmed a 0,25% rate increase in December. The policy change was made as the US economy continued to perform well.

Higher interest rates typically dampen sentiment towards government bonds, and the effects of US rate moves can be felt internationally given the importance of the US market. (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.)

However, going into 2016, a number of other global economic factors led other major central banks to leave interest rates unchanged, or even reduce them. Among these considerations were worries about China's decelerating economy, renewed declines in oil and commodity prices, and generally subdued inflation rates. Concerns also emerged that the global economy was slowing, and interest rates are not typically increased in such an environment.

In addition, in the final month of the period, the UK held an 'In/Out' referendum regarding its membership of the European Union (EU). The vote produced an unexpected 'leave' result, which most economists expect to lead to reduced economic growth, not only in the

M&G Global Government Bond Fund

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Investment review

Investment performance (continued)

UK but also in the EU. However, among the knock-on effects of the referendum, government bonds in mainstream markets such as Germany and the US were favoured by investors for their 'safe-haven' status during times of uncertainty.

Indeed, the ongoing environment of low interest rates and inflation provided a helpful backdrop for the performance of global government bond markets, which mostly delivered positive returns during the period. In turn, the fund's returns benefited from its diversified allocations across these markets.

Among other themes, the performance of government bond markets generally benefited from important policy announcements from the European Central Bank (ECB) in response to continued weakness in the eurozone's economy. These involved an expansion of the ECB's significant economic stimulus measures, which included further reductions in interest rates. The ECB also confirmed in March 2016 that it would expand a programme whereby it uses its own money to buy up government and corporate bonds in the region. In essence, this action aims to keep interest rates low, as well as stimulate lending in the economy, and the prospect of additional buying activity by the ECB helped to push bond prices higher. This was notably the case with German government bonds and, as a result, the fund's performance was helped by its allocation to these assets.

Prior to the review period, areas of the emerging bond markets had often underperformed relative to their counterparts in developed countries. For many emerging economies, export revenues from oil and commodity production are important, while they can also be very reliant on selling their exports to China. Partly based on the weaker outlook for such factors, we maintained a small and select exposure to emerging bond markets at the start of the period.

However, we considered subsequently that the price declines of these assets had left their valuations more appealing and, consequently, began to increase the fund's investments in this area. This helped the fund's performance in the latter months of the review period as investor demand for emerging market assets improved, helped by factors such as an upturn in oil and commodity prices.

We continued to invest mainly in non-sterling-denominated assets during the review period, and given that the pound declined markedly against many key currencies, this positioning provided a boost to the performance of the fund's sterling share classes.

Investment activities

The active management of the fund's allocations to different countries, as well as its currency positioning, are important drivers of its long-term returns. During the review period, our preferred investment themes included an assessment that the ECB's economic stimulus policies would help European government bond markets to perform relatively well.

As a consequence, we maintained a sizeable country allocation to Germany throughout the 12 months. The German government bond market is considered by investors as a benchmark in the eurozone, while we also considered that value could be found among other

countries in the region on a selective basis. We maintained a smaller allocation to Italian government bonds, for example, although this exposure was reduced during the second half of the review period. Elsewhere, the US and Japan ranked as the fund's largest country allocations at the end of the period.

A number of factors contributed to underperformance among emerging market bonds at times in 2015. These included ongoing concerns about slower economic growth in China and further declines in the price of oil and other commodities. Many emerging market economies are producers of oil and commodities and lower prices in these industries weaken their export revenues. In our view, however, the declines recorded by some emerging bond markets left them more attractively valued and, as a result, we increased the fund's relatively small allocation to this area of the market. This activity included purchases of bonds from the governments of Poland and Hungary, while we also maintained an allocation to the larger Mexican market.

In the run-up to the UK's EU referendum, we made some adjustments to the portfolio that mainly involved some selling activity and holding a higher allocation to cash. This reflected our view that markets were underestimating the possibility of a vote to leave the EU. Bonds were sold, for example, from the governments of Indonesia and Bulgaria. In the post-referendum environment, however, we reinvested money via purchases that included adding to existing government bond positions in Slovenia and Lithuania.

Outlook

With the global growth outlook now likely to be weaker following the UK referendum, we expect the Fed to be on hold with regard to further tightening of monetary policy, with no interest rate rises in the near term. In Europe, while the sharp fall in sterling has been one of the main headlines in the post-referendum environment, the euro has also fallen against the US dollar as markets rightly assess the key implications of Brexit for the eurozone as well.

For example, the referendum result has increased the uncertainty of how the wider EU project will look over the next few years. Also relevantly, lower UK growth is likely to have some dampening effect on the performance of the European economy. Given such considerations, we continue to favour holding relatively high allocations to financially strong governments such as Germany and the US.

Against the challenges in the global economic outlook, central banks in a number of regions appear ready to maintain or increase their important monetary stimulus policies, which should keep interest rates low for longer. Such an environment can support sentiment towards government bonds and, as always, we will seek to continue investing the fund in markets where we see the best relative value.

While our preference remains to allocate most of the fund's assets to bonds from financially strong governments in developed countries, we also retain smaller and select exposures to emerging market government bonds. In our assessment, value can still be found in this

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Investment review

Outlook (continued)

area after the underperformance of these assets during 2015, and when comparing their valuations to government bonds in developed countries. Among the fund's largest emerging market allocations at the end of the review period were Mexico, Hungary, and India.

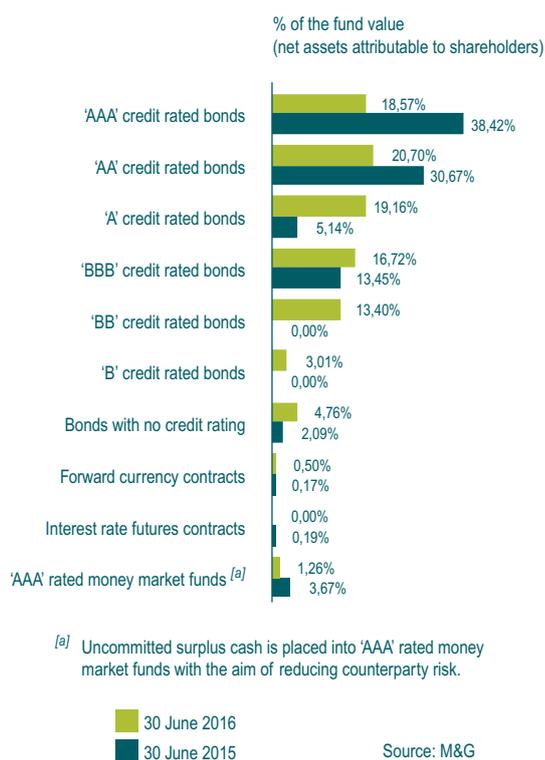
Claudia Calich
Fund manager

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

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

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

Classification of investments



Investments

Portfolio statement

as at 30 June Holding	2016 \$'000	2016 %	2015 %
Debt securities	59,486	96,32	89,77
'AAA' credit rated bonds	11,466	18,57	38,42
AUD2.200.000 Australia (Govt. of) 2,75% 2024	1.738	2,82	
DKK6.500.000 Denmark (Kingdom of) 3% 2021	1.147	1,86	
€1.250.000 Germany (Federal Republic of) 1,75% IL 2020	1.684	2,73	
€500.000 Germany (Federal Republic of) 2,5% 2046	890	1,44	
€350.000 Netherlands (Kingdom of) 2,75% 2047	632	1,02	
NOK6.500.000 Norway (Kingdom of) 2% 2023	840	1,36	
SGD700.000 Singapore (Republic of) 2,75% 2042	562	0,91	
SEK3.700.000 Sweden (Kingdom of) 3,5% 2039	639	1,03	
€2.450.000 Treasury 1% 2017	3.334	5,40	
'AA' credit rated bonds	12,780	20,70	30,67
CLP700.000.000 Chile (Republic of) 5,5% 2020	1.119	1,82	
NZD1.200.000 New Zealand (Govt. of) 2,5% IL 2035	966	1,56	
\$350.000 Qatar (State of) 9,75% 2030	581	0,94	
\$2.200.000 US Treasury 0,5% 2031	2.199	3,56	
\$7.900.000 US Treasury 0,75% 2031	7.915	12,82	
'A' credit rated bonds	11,835	19,16	5,14
\$700.000 Israel (State of) 4,5% 2043	783	1,26	
¥700.000.000 Japan (Govt. of) 0,4% 2036	7.234	11,71	
\$800.000 Lithuania (Republic of) 6,625% 2022	967	1,57	
MXN15.000.000 Mexico (United Mexican States) 6,5% 2022	844	1,37	
MXN9.227.700 Petroleos Mexicano 7,19% 2024	447	0,72	
\$700.000 Slovenia (Republic of) 5,5% 2022	794	1,29	
THB28.000.000 Thailand (Kingdom of) 1,25% IL 2028	766	1,24	
'BBB' credit rated bonds	10,327	16,72	13,45
\$700.000 Development Bank Philippines 5,5% 2021	796	1,29	
\$700.000 Iceland (Republic of) 5,875% 2022	812	1,31	
€750.000 Italy (Republic of) 4% 2037	1.107	1,79	
£492.000 Mexico (United Mexican States) 5,625% 2114	622	1,01	
€740.000 Morocco (Kingdom of) 3,5% 2024	862	1,40	
\$400.000 Panama (Republic of) 8,875 2027	877	1,42	
\$712.500 Petroleos Mexicano 2,46% 2025	742	1,20	
PHP30.000.000 Philippines (Republic of) 6,25% 2036	723	1,17	
\$800.000 Poland (Republic of) 4% 2024	864	1,40	
\$2.500.000 Romania (Republic of) 5,8% 2027	722	1,17	
\$500.000 Romania (Republic of) 6,75% 2022	592	0,96	
RUB70.000.000 Russia (Federation of) 7,4% 2017	1.070	1,73	
ZAR8.700.000 South Africa (Republic of) 8,75% 2048	538	0,87	
'BB' credit rated bonds	8,276	13,40	0,00
BRL3.500.000 Brazil (Federal Republic of) 10% 2025	974	1,58	
€800.000 Bulgaria (Republic of) 2% 2022	911	1,48	
\$500.000 Dominican Republic 5,875% 2024	520	0,85	
\$700.000 Guatemala (Republic of) 5,75% 2022	775	1,25	
\$500.000 Hungarian Import-Export Bank 4% 2020	509	0,82	
HUF230.000.000 Hungary (Republic of) 7% 2022	1.006	1,63	
\$800.000 Indonesia (Republic of) 4,35% 2024	827	1,34	

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Investments

Portfolio statement (continued)				
as at 30 June		2016	2016	2015
Holding		\$'000	%	%
'BB' credit rated bonds (continued)				
IDR11.000.000.000	Indonesia (Republic of) 9% 2029	923	1,49	
€ 700.000	Macedonia (Govt. of) 3,975% 2021	759	1,23	
\$500.000	MFB Hungarian Development Bank 6,25% 2020	552	0,89	
\$500.000	Paraguay (Republic of) 4,625% 2023	520	0,84	
'B' credit rated bonds		1.860	3,01	0,00
\$382.000	Argentina (Republic of) 7,5% 2026	415	0,67	
ARS8.000.000	Argentina (Republic of) FRN 2017	540	0,87	
\$800.000	Honduras (Republic of) 8,75% 2020	905	1,47	
Bonds with no credit rating		2.942	4,76	2,09
\$337.840	Khdrawy 2,471% 2025	338	0,55	
INR100.000.000	Rural Electrification 9,04% 2019	1.528	2,47	
\$1.000.000	Southern Gas Corridor 6,875% 2026	1.076	1,74	
Forward currency contracts		307	0,50	0,17
AUD (3.829.500)	Sold for \$2.810.853 (expires 27.07.16)	15	0,02	
¥772.247.050	Bought for \$7.220.028 (expires 27.07.16)	297	0,49	
NZD (3.070.000)	Sold for \$2.120.056 (expires 27.07.16)	(43)	(0,07)	
£(825.000)	Sold for \$1.213.963 (expires 27.07.16)	101	0,16	
£825.000	Bought for \$1.097.869 (expires 27.07.16)	(63)	(0,10)	
Interest rate futures contracts			0,00	0,19
Portfolio of investments		59.793	96,82	90,13
'AAA' rated money market funds ^[a]				
779.000	Northern Trust Global Fund - US dollar	779	1,26	3,67
Total portfolio (notes 2c & 2d on page 6)		60.572	98,08	93,80
Net other assets / (liabilities)		1.188	1,92	6,20
Net assets attributable to shareholders		61.760	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 Global Government 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 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 (3), 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			
	2016	2015	2014
as at 30 June	\$'000	\$'000	\$'000
Fund net asset value (NAV)	61.760	51.323	63.632

Share class performance since launch

To give an indication of how the fund has performed since launch, the graph 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 long-term 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 01.07.15 % ^[a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Euro^[b]				
Class 'A'	+11,8	n/a	n/a	+13,3 ^[c]
Class 'C'	+12,2	n/a	n/a	+13,9 ^[c]
Sterling^[d]				
Class 'A'	+31,2	+6,7	+5,7	+5,9 ^[e]
Class 'I'	+31,8	+7,1	n/a	+4,4 ^[f]
Class 'R'	+31,5	+6,9	n/a	+4,3 ^[f]
Swiss franc^[b]				
Class 'A'	+15,6	n/a	n/a	+6,8 ^[c]
Class 'C'	+16,2	n/a	n/a	+7,4 ^[c]
US dollar^[b]				
Class 'A'	+11,7	n/a	n/a	+3,0 ^[c]
Class 'C'	+12,4	n/a	n/a	+3,6 ^[c]

^[a] Absolute basis.

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

^[c] 22 August 2014, the launch date of the share class.

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

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

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

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Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2016	2015	2014	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0,00	0,01	0,00	0,00
Taxes	0,00	0,00	0,00	0,00
Costs before dilution adjustments	0,00	0,01	0,00	0,00
Dilution adjustments ^[c]	0,00	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,00	0,00
as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,39	0,40	0,21	0,33

^[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 Global Government Bond Fund

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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' Income share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.121,26	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	138,27	135,51	n/a
Operating charges	(14,52)	(11,32)	n/a
Return after operating charges	123,75	124,19	n/a
Distributions	(19,00)	(2,93)	n/a
Closing NAV	1.226,01	1.121,26	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,03	0,07	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,07	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	1,23	1,21	n/a
Return after operating charges	+11,04	+12,42	n/a
Distribution yield	1,76	0,78	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	755	68	n/a
Closing NAV percentage of total fund NAV (%)	1,22	0,13	n/a
Number of shares	55.260	5.386	n/a
Highest share price (Euro ¢)	1.250,06	1.236,29	n/a
Lowest share price (Euro ¢)	1.101,32	1.000,00	n/a

Euro Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.124,07	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	139,09	135,24	n/a
Operating charges	(14,36)	(11,17)	n/a
Return after operating charges	124,73	124,07	n/a
Closing NAV	1.248,80	1.124,07	n/a
Retained distributions	19,13	3,08	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,03	0,07	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,07	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	1,23	1,21	n/a
Return after operating charges	+11,10	+12,41	n/a
Distribution yield	1,76	0,78	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	1.917	1.231	n/a
Closing NAV percentage of total fund NAV (%)	3,10	2,40	n/a
Number of shares	137.745	97.938	n/a
Highest share price (Euro ¢)	1.260,46	1.236,34	n/a
Lowest share price (Euro ¢)	1.104,06	1.000,00	n/a

Euro Class 'C' Income share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.120,51	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	138,43	135,48	n/a
Operating charges	(8,18)	(6,59)	n/a
Return after operating charges	130,25	128,89	n/a
Distributions	(25,46)	(8,38)	n/a
Closing NAV	1.225,30	1.120,51	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,03	0,07	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,07	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	0,71	0,71	n/a
Return after operating charges	+11,62	+12,89	n/a
Distribution yield	2,28	1,28	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	7	6	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	500	500	n/a
Highest share price (Euro ¢)	1.252,76	1.236,71	n/a
Lowest share price (Euro ¢)	1.101,45	1.000,00	n/a

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Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	1.129,06	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	140,57	135,66	n/a
Operating charges	(8,32)	(6,60)	n/a
Return after operating charges	132,25	129,06	n/a
Closing NAV	1.261,31	1.129,06	n/a
Retained distributions	25,78	8,38	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,03	0,07	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,07	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	0,71	0,71	n/a
Return after operating charges	+11,71	+12,91	n/a
Distribution yield	2,28	1,28	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	7	6	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	500	500	n/a
Highest share price (Euro ¢)	1.273,04	1.239,97	n/a
Lowest share price (Euro ¢)	1.109,89	1.000,00	n/a

Sterling Class 'A' Income share performance

The share class was launched on 4 October 1999.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	76,06	74,16	82,87
Return before operating charges and after direct portfolio transaction costs	22,97	3,05	(7,51)
Operating charges	(1,00)	(0,96)	(0,93)
Return after operating charges	21,97	2,09	(8,44)
Distributions	(1,43)	(0,19)	(0,27)
Closing NAV	96,60	76,06	74,16
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,00	0,01	0,00
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	0,00
Operating charges	1,24	1,21	1,19
Return after operating charges	+28,89	+2,82	-10,18
Distribution yield	1,76	0,77	0,24
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	4.442	12.854	15.549
Closing NAV percentage of total fund NAV (%)	7,19	25,05	24,44
Number of shares	3.409.000	10.753.913	12.306.940
Highest share price (UK p)	99,17	84,83	84,34
Lowest share price (UK p)	75,83	73,58	73,90

Sterling Class 'A' Accumulation share performance

The share class was launched on 4 October 1999.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	98,57	95,92	106,87
Return before operating charges and after direct portfolio transaction costs	29,88	3,94	(9,68)
Operating charges	(1,31)	(1,24)	(1,20)
Return after operating charges	28,57	2,70	(10,88)
Distributions	(0,37)	(0,05)	(0,07)
Closing NAV	126,77	98,57	95,92
Retained distributions	1,50	0,19	0,28
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,00	0,01	0,00
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	0,00
Operating charges	1,24	1,21	1,19
Return after operating charges	+28,99	+2,81	-10,18
Distribution yield	1,76	0,77	0,24
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	9.724	15.804	30.788
Closing NAV percentage of total fund NAV (%)	15,74	30,79	48,38
Number of shares	5.686.909	10.202.676	18.842.205
Highest share price (UK p)	129,11	109,72	108,77
Lowest share price (UK p)	98,27	95,15	95,54

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	879,00	857,12	957,66
Return before operating charges and after direct portfolio transaction costs	266,00	35,07	(87,25)
Operating charges	(7,16)	(6,51)	(6,20)
Return after operating charges	258,84	28,56	(93,45)
Distributions	(21,49)	(6,68)	(7,09)
Closing NAV	1.116,35	879,00	857,12
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,03	0,06	0,00
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,03	0,06	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	0,00
Operating charges	0,73	0,71	0,70
Return after operating charges	+29,45	+3,33	-9,76
Distribution yield	2,26	1,27	0,73
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	12.179	2.761	2.675
Closing NAV percentage of total fund NAV (%)	19,72	5,38	4,20
Number of shares	808.857	199.884	183.139
Highest share price (UK p)	1.148,20	981,26	974,87
Lowest share price (UK p)	876,45	850,37	855,59

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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 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	896,49	868,92	965,25
Return before operating charges and after direct portfolio transaction costs	272,80	35,53	(88,74)
Operating charges	(7,19)	(6,59)	(6,30)
Return after operating charges	265,61	28,94	(95,04)
Distributions	(4,43)	(1,37)	(1,29)
Closing NAV	1.157,67	896,49	868,92
Retained distributions	17,70	5,46	5,17
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,03	0,06	0,00
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,03	0,06	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	0,00
Operating charges	0,73	0,71	0,70
Return after operating charges	+29,63	+3,33	-9,85
Distribution yield	2,26	1,27	0,73
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	32.422	18.374	14.477
Closing NAV percentage of total fund NAV (%)	52,50	35,80	22,75
Number of shares	2.076.382	1.304.216	978.009
Highest share price (UK p)	1.178,92	996,84	981,66
Lowest share price (UK p)	893,89	862,10	865,37

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	87,90	85,70	95,79
Return before operating charges and after direct portfolio transaction costs	26,58	3,52	(8,82)
Operating charges	(0,93)	(0,88)	(0,84)
Return after operating charges	25,65	2,64	(9,66)
Distributions	(1,92)	(0,44)	(0,43)
Closing NAV	111,63	87,90	85,70
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,00	0,01	0,00
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	0,00
Operating charges	0,99	0,96	0,94
Return after operating charges	+29,18	+3,08	-10,08
Distribution yield	2,01	1,02	0,51
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	86	79	83
Closing NAV percentage of total fund NAV (%)	0,14	0,15	0,13
Number of shares	57.000	57.000	57.000
Highest share price (UK p)	114,72	98,07	97,41
Lowest share price (UK p)	87,63	85,02	85,48

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	89,33	86,75	96,51
Return before operating charges and after direct portfolio transaction costs	27,14	3,56	(8,81)
Operating charges	(0,95)	(0,89)	(0,86)
Return after operating charges	26,19	2,67	(9,67)
Distributions	(0,39)	(0,09)	(0,09)
Closing NAV	115,13	89,33	86,75
Retained distributions	1,57	0,37	0,37
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,00	0,01	0,00
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,00	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	0,00
Operating charges	0,98	0,96	0,94
Return after operating charges	+29,32	+3,08	-10,02
Distribution yield	2,01	1,02	0,49
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	42	58	60
Closing NAV percentage of total fund NAV (%)	0,07	0,11	0,10
Number of shares	26.736	41.000	41.000
Highest share price (UK p)	117,25	99,38	98,20
Lowest share price (UK p)	89,06	86,07	86,41

Swiss franc Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	966,39	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	170,10	(23,33)	n/a
Operating charges	(12,26)	(10,28)	n/a
Return after operating charges	157,84	(33,61)	n/a
Closing NAV	1.124,23	966,39	n/a
Retained distributions	18,24	2,92	n/a
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,03	0,06	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,06	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	1,18	1,21	n/a
Return after operating charges	+16,33	-3,36	n/a
Distribution yield	1,82	0,80	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	6	5	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	500	500	n/a
Highest share price (Swiss ¢)	1.131,53	1.105,05	n/a
Lowest share price (Swiss ¢)	975,77	928,80	n/a

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Specific share class performance

Swiss franc Class 'C' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 Swiss ¢	2015 Swiss ¢	2014 Swiss ¢
Opening NAV	970,54	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	171,25	(23,55)	n/a
Operating charges	(7,17)	(5,91)	n/a
Return after operating charges	164,08	(29,46)	n/a
Closing NAV	1.134,62	970,54	n/a
Retained distributions	23,58	7,94	n/a
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,03	0,06	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,06	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	0,68	0,71	n/a
Return after operating charges	+16,91	-2,95	n/a
Distribution yield	2,32	1,30	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	6	5	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	500	500	n/a
Highest share price (Swiss ¢)	1.141,96	1.107,32	n/a
Lowest share price (Swiss ¢)	980,13	930,82	n/a

US dollar Class 'A' Income share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	944,59	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	113,14	(42,52)	n/a
Operating charges	(11,59)	(9,90)	n/a
Return after operating charges	101,55	(52,42)	n/a
Distributions	(16,48)	(2,99)	n/a
Closing NAV	1.029,66	944,59	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,03	0,06	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,06	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	1,21	1,21	n/a
Return after operating charges	+10,75	-5,24	n/a
Distribution yield	1,79	0,80	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	5	5	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	500	500	n/a
Highest share price (US ¢)	1.044,41	1.006,05	n/a
Lowest share price (US ¢)	917,57	944,94	n/a

US dollar Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	947,49	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	113,83	(42,49)	n/a
Operating charges	(12,00)	(10,02)	n/a
Return after operating charges	101,83	(52,51)	n/a
Closing NAV	1.049,32	947,49	n/a
Retained distributions	15,96	2,99	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,03	0,06	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,06	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	1,23	1,21	n/a
Return after operating charges	+10,75	-5,25	n/a
Distribution yield	1,76	0,80	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	152	57	n/a
Closing NAV percentage of total fund NAV (%)	0,25	0,11	n/a
Number of shares	14.514	6.000	n/a
Highest share price (US ¢)	1.053,25	1.006,50	n/a
Lowest share price (US ¢)	920,23	945,36	n/a

US dollar Class 'C' Income share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2016 US ¢	2015 US ¢	2014 US ¢
Opening NAV	943,85	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	113,24	(42,63)	n/a
Operating charges	(6,62)	(5,71)	n/a
Return after operating charges	106,62	(48,34)	n/a
Distributions	(21,45)	(7,81)	n/a
Closing NAV	1.029,02	943,85	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,03	0,06	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,06	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	0,69	0,71	n/a
Return after operating charges	+11,30	-4,83	n/a
Distribution yield	2,31	1,30	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	5	5	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	500	500	n/a
Highest share price (US ¢)	1.046,34	1.005,85	n/a
Lowest share price (US ¢)	918,95	946,33	n/a

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Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June	2016	2015	2014
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	951,66	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	115,18	(42,62)	n/a
Operating charges	(6,76)	(5,72)	n/a
Return after operating charges	108,42	(48,34)	n/a
Closing NAV	1.060,08	951,66	n/a
Retained distributions	21,69	7,87	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,03	0,06	n/a
Dilution adjustments ^[b]	0,00	0,00	n/a
Total direct portfolio transaction costs	0,03	0,06	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,01	n/a
Operating charges	0,69	0,71	n/a
Return after operating charges	+11,39	-4,83	n/a
Distribution yield	2,30	1,30	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (\$'000)	5	5	n/a
Closing NAV percentage of total fund NAV (%)	0,01	0,01	n/a
Number of shares	500	500	n/a
Highest share price (US ¢)	1.064,06	1.008,80	n/a
Lowest share price (US ¢)	926,55	949,12	n/a

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

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

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Statement of total return

for the year to 30 June	Note	2016		2015	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	2		4,654		(3,195)
Revenue	4	1,492		832	
Expenses	5	(483)		(594) ^[a]	
Net revenue / (expense) before taxation		1,009		238	
Taxation	6	(29)		(5)	
Net revenue / (expense) after taxation			980		233
Total return before distributions			5,634		(2,962)
Distributions	7		(980)		(233)
Change in net assets attributable to shareholders from investment activities			4,654		(3,195)

Statement of change in net assets attributable to shareholders

for the year to 30 June		2016		2015	
		\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders			51,323		63,632
Amounts received on issue of shares	34,294			14,630 ^[a]	
Amounts paid on cancellation of shares	(29,175)			(23,908) ^[a]	
			5,119		(9,278)
Dilution adjustments			73		26 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)			4,654		(3,195)
Retained distributions on Accumulation shares			591		138
Closing net assets attributable to shareholders			61,760		51,323

Balance sheet

as at 30 June	Note	2016	2015
		\$'000	\$'000
Assets			
Fixed assets			
Investments		60,678	48,489
Current assets			
Debtors	8	9,096	385
Cash and bank balances	9	907	2,933
Total assets		70,681	51,807
Liabilities			
Investment liabilities		(106)	(346)
Creditors			
Distribution payable		(299)	(72) ^[a]
Other creditors	10	(8,516)	(66) ^[a]
Total liabilities		(8,921)	(484)
Net assets attributable to shareholders		61,760	51,323

^[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling \$73,000 (2015: \$26,000) have been reclassified from 'Amounts received on issue of shares' of \$60,000 (2015: \$16,000) and 'Amounts paid on cancellation of shares' of \$13,000 (2015: \$10,000).

Interest payable of \$1,000 (2015: \$2,000) has been reclassified from 'Distributions' into 'Expenses'.

Income tax payable of \$133,000 (2015: \$36,000) has been reclassified from 'Other creditors' into 'Distribution payable'.

2 Net capital gains / (losses)

for the year to 30 June	2016	2015
	\$'000	\$'000
Non-derivative securities	3,357	(6,942)
Derivative contracts	1,632	3,867
Currency gains / (losses)	(329)	(114)
Transaction charges	(6)	(6)
Net capital gains / (losses)	4,654	(3,195)

3 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 130.

for the year to 30 June	2016	2015		
	\$'000	\$'000		
a) Purchases				
Debt securities ^[a]	69,320	70,952		
Total purchases after transaction costs	69,320	70,952		
b) Sales				
Debt securities ^[a]	59,161	811,560		
Total sales after transaction costs	59,161	811,560		
c) Direct portfolio transaction costs				
	2016	% of	2015	% of
	\$'000	average NAV	\$'000	average NAV
Commissions paid				
Derivatives	1	0,00	4	0,01
Total direct portfolio transaction costs	1		4	
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[b]		0,39		0,40

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

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

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4 Revenue

for the year to 30 June	2016 \$'000	2015 \$'000
Bank interest	0	1
Derivative revenue	(125)	(348)
Interest distributions	3	1
Interest on debt securities	1,614	1,179
Margin interest	0	(1)
Total revenue	1,492	832

5 Expenses

for the year to 30 June	2016 \$'000	2015 \$'000
Payable to the ACD or associate		
Annual management charge	369	476
Administration charge	76	87
	445	563
Payable to the Depository or associate		
Depository's charge (including VAT)	5	5
Other expenses		
Audit fee (including VAT)	13	11
Interest payable	1	2
Legal fees	2	0
Safe custody charge	16	12
Tax fees (including VAT)	1	1
	33	26
Total expenses	483	594

6 Taxation

for the year to 30 June	2016 \$'000	2015 \$'000
a) Analysis of charge in the year		
Corporation tax	6	1
Withholding tax	29	5
Current double taxation relief	(6)	(1)
Deferred tax (note 6c)	0	0
Total taxation	29	5

b) Factors affecting taxation charge for the year

Net revenue before taxation	1,009	238
Corporation tax at 20%	202	47
Effects of:		
Interest distributions	(196)	(47)
Withholding tax	29	5
Withholding tax expensed	0	1
Total double taxation relief	(6)	(1)
Total tax charge (note 6a)	29	5

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	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 (2015: 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 where applicable.

7 Distributions

for the year to 30 June Interest distributions	2016		2015	
	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Interim	73	168	6	33
Final	166	423	36	105
Total net distributions		830		180
Income tax deducted at source		194		47
Interest distributions		1,024		227
Income deducted on cancellation of shares		105		24
Income received on issue of shares		(149)		(18)
Distributions		980		233

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

8 Debtors

as at 30 June	2016 \$'000	2015 \$'000
Amounts receivable on issues of shares	880	0
Debt security interest receivable	581	357
Sales awaiting settlement	7,607	0
Withholding tax recoverable	28	28
Total debtors	9,096	385

9 Cash and bank balances

as at 30 June	2016 \$'000	2015 \$'000
Amounts held at futures clearing houses and brokers	0	315
Cash held as bank balances	907	2,618
Total cash and bank balances	907	2,933

10 Other creditors

as at 30 June	2016 \$'000	2015 \$'000
ACD's annual management charge payable	11	9
Administration charge payable	2	2
Amounts payable on cancellation of shares	69	0
Currency deals outstanding	8	0
Derivative expense payable	0	42
Expenses payable	19	13
Purchases awaiting settlement	8,407	0
Total other creditors	8,516	66

11 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: same).

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12 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 13 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Euro				
Class 'A' Income (Gross)	5.386	50.874	(1.000)	55.260
Class 'A' Accumulation (Gross)	97.938	87.107	(47.300)	137.745
Class 'C' Income (Gross)	500	0	0	500
Class 'C' Accumulation (Gross)	500	0	0	500
Sterling				
Class 'A' Income (Net)	10.753.913	302.395	(7.647.308)	3.409.000
Class 'A' Accumulation (Net)	10.202.676	2.711.637	(7.227.404)	5.686.909
Class 'I' Income (Net)	199.884	646.973	(38.000)	808.857
Class 'I' Accumulation (Net)	1.304.216	1.279.943	(507.777)	2.076.382
Class 'R' Income (Net)	57.000	0	0	57.000
Class 'R' Accumulation (Net)	41.000	7.000	(21.264)	26.736
Swiss franc				
Class 'A' Accumulation (Gross)	500	0	0	500
Class 'C' Accumulation (Gross)	500	0	0	500
US dollar				
Class 'A' Income (Gross)	500	0	0	500
Class 'A' Accumulation (Gross)	6.000	8.514	0	14.514
Class 'C' Income (Gross)	500	0	0	500
Class 'C' Accumulation (Gross)	500	0	0	500

13 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'	4,00	n/a	1,00
Class 'C'	1,25	n/a	0,50
Sterling			
Class 'A'	nil	n/a	1,00
Class 'I'	1,00	n/a	0,50
Class 'R'	1,00	n/a	0,75
Swiss franc			
Class 'A'	4,00	n/a	1,00
Class 'C'	1,25	n/a	0,50
US dollar			
Class 'A'	4,00	n/a	1,00
Class 'C'	1,25	n/a	0,50

14 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 7. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 8 and 10 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 5. Amounts due at the year end to the ACD in respect of the ACD's annual management charge and administration charge are disclosed in note 10.

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 (2015: same).

15 Events after the balance sheet date

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

16 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.

Valuation technique	Assets	Liabilities	Assets	Liabilities
	2016 \$'000	2016 \$'000	2015 \$'000	2015 \$'000
Level 1	24.363	0	25.342	(25)
Level 2	36.315	(106)	23.147	(321)
Level 3	0	0	0	0
	60.678	(106)	48.489	(346)

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 12 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

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17 Risk management policies

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

18 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 30 June 2016 was 18% (2015: 18%).

The lowest, highest and average utilisation of the VaR limit calculated during the financial years ended 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 %	2015 %
Lowest	2.93	1.57
Highest	5.25	4.55
Average	4.22	3.21

19 Credit risk

as at 30 June	2016 \$'000	2015 \$'000
Investment grade securities	46,408	45,007
Below investment grade securities	10,136	0
Unrated securities	2,942	1,074
Other investments	1,086	2,062
Total	60,572	48,143

20 Counterparty exposure

as at 30 June 2016	Forward currency contracts \$'000	Futures \$'000	Collateral held as cash \$'000	Net exposure \$'000
State Street Bank	307	0	0	307
Total	307	0	0	307

as at 30 June 2015	Forward currency contracts \$'000	Futures \$'000	Collateral held as cash \$'000	Net exposure \$'000
Bank of America Merrill Lynch	0	95	(315)	(220)
State Street Bank	84	0	0	84
Total	84	95	(315)	(136)

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.

21 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 30 June 2016 and 30 June 2015 are disclosed in the table below.

for the year to 30 June	2016 \$'000	2016 %	2015 \$'000	2015 %
Lowest	38,725	117	70,948	203
Highest	91,271	279	107,092	306
Average	57,465	172	74,226	251

22 Interest distribution tables

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

Half yearly distribution periods				
	Start	End	Xd	Payment
Interim	01.07.15	31.12.15	04.01.16	29.02.16
Final	01.01.16	30.06.16	01.07.16	31.08.16

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' Income shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equal- isation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	6,5047	-	6,5047	-	6,5047	0,2180
Final	12,4932	-	12,4932	-	12,4932	2,7125
Group 2						
Interim	5,6572	-	5,6572	0,8475	6,5047	0,2180
Final	5,8279	-	5,8279	6,6653	12,4932	2,7125

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22 Interest distribution tables (continued)

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	6,5298	-	6,5298	-	6,5298	0,2180
Final	12,6005	-	12,6005	-	12,6005	2,8611
Group 2						
Interim	2,4700	-	2,4700	4,0598	6,5298	0,2180
Final	4,1891	-	4,1891	8,4114	12,6005	2,8611

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	9,5604	-	9,5604	-	9,5604	2,7820
Final	15,9040	-	15,9040	-	15,9040	5,5940
Group 2						
Interim	8,2529	-	8,2529	1,3075	9,5604	2,7820
Final	15,9040	-	15,9040	0,0000	15,9040	5,5940

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	€	€	€	€	€	€
Interim	9,5604	-	9,5604	-	9,5604	2,7840
Final	16,2240	-	16,2240	-	16,2240	5,5959
Group 2						
Interim	9,5604	-	9,5604	0,0000	9,5604	2,7840
Final	16,2240	-	16,2240	0,0000	16,2240	5,5959

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	0,4585	0,0917	0,3668	-	0,3668	0,0040
Final	0,9760	0,1952	0,7808	-	0,7808	0,1468
Group 2						
Interim	0,2806	0,0561	0,2245	0,1423	0,3668	0,0040
Final	0,6405	0,1281	0,5124	0,2684	0,7808	0,1468

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	0,5920	0,1184	0,4736	-	0,4736	0,0052
Final	1,2775	0,2555	1,0220	-	1,0220	0,1860
Group 2						
Interim	0,3544	0,0709	0,2835	0,1901	0,4736	0,0052
Final	0,8034	0,1607	0,6427	0,3793	1,0220	0,1860

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	7,5380	1,5076	6,0304	-	6,0304	1,8804
Final	13,9475	2,7895	11,1580	-	11,1580	3,4652
Group 2						
Interim	4,4758	0,8952	3,5806	2,4498	6,0304	1,8804
Final	7,5123	1,5025	6,0098	5,1482	11,1580	3,4652

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	7,6820	1,5364	6,1456	-	6,1456	1,9484
Final	14,4455	2,8891	11,5564	-	11,5564	3,5144
Group 2						
Interim	4,9470	0,9894	3,9576	2,1880	6,1456	1,9484
Final	7,6045	1,5209	6,0836	5,4728	11,5564	3,5144

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	0,6445	0,1289	0,5156	-	0,5156	0,0996
Final	1,2715	0,2543	1,0172	-	1,0172	0,2560
Group 2						
Interim	0,5199	0,1040	0,4159	0,0997	0,5156	0,0996
Final	0,9531	0,1906	0,7625	0,2547	1,0172	0,2560

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	p	p	p	p	p	p
Interim	0,6545	0,1309	0,5236	-	0,5236	0,1044
Final	1,3020	0,2604	1,0416	-	1,0416	0,2612
Group 2						
Interim	0,6545	0,1309	0,5236	0,0000	0,5236	0,1044
Final	0,4293	0,0859	0,3434	0,6982	1,0416	0,2612

Swiss franc Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	6,3611	-	6,3611	-	6,3611	0,4579
Final	11,8780	-	11,8780	-	11,8780	2,4580
Group 2						
Interim	6,3611	-	6,3611	0,0000	6,3611	0,4579
Final	11,8780	-	11,8780	0,0000	11,8780	2,4580

M&G Global Government Bond Fund

Financial statements and notes

Notes to the financial statements

22 Interest distribution tables (continued)

Swiss franc Class 'C' Accumulation shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	8,9600	-	8,9600	-	8,9600	3,0100
Final	14,6200	-	14,6200	-	14,6200	4,9280
Group 2						
Interim	8,9600	-	8,9600	0,0000	8,9600	3,0100
Final	14,6200	-	14,6200	0,0000	14,6200	4,9280

US dollar Class 'A' Income shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	5,6360	-	5,6360	-	5,6360	0,4820
Final	10,8420	-	10,8420	-	10,8420	2,5100
Group 2						
Interim	5,6360	-	5,6360	0,0000	5,6360	0,4820
Final	10,8420	-	10,8420	0,0000	10,8420	2,5100

US dollar Class 'A' Accumulation shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	5,3882	-	5,3882	-	5,3882	0,4820
Final	10,5695	-	10,5695	-	10,5695	2,5104
Group 2						
Interim	5,3149	-	5,3149	0,0733	5,3882	0,4820
Final	4,8208	-	4,8208	5,7487	10,5695	2,5104

US dollar Class 'C' Income shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	8,0420	-	8,0420	-	8,0420	2,8360
Final	13,4080	-	13,4080	-	13,4080	4,9780
Group 2						
Interim	8,0420	-	8,0420	0,0000	8,0420	2,8360
Final	13,4080	-	13,4080	0,0000	13,4080	4,9780

US dollar Class 'C' Accumulation shares						
Interest distributions for the year to 30 June	Gross income 2016	Income tax deducted 2016	Net income 2016	Equalisation 2016	Distribution 2016 2015	
Group 1	¢	¢	¢	¢	¢	¢
Interim	8,0760	-	8,0760	-	8,0760	2,8380
Final	13,6120	-	13,6120	-	13,6120	5,0300
Group 2						
Interim	8,0760	-	8,0760	0,0000	8,0760	2,8380
Final	13,6120	-	13,6120	0,0000	13,6120	5,0300

M&G Global Government Bond Fund

Financial statements and notes

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M&G Recovery Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund predominantly invests in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. The sole aim of the Fund is capital growth. There is no particular income yield target.

Investment approach

The M&G Recovery Fund invests in companies that are out of favour with the stockmarket where a good management team is making concerted efforts to turn the business around. The fund manager takes a long-term view with a typical holding period of five years or more and aims to provide a diversified portfolio of up to 100 stocks. Developing a constructive dialogue with company management is a fundamental part of the investment process and the fund manager will not invest in a company unless he has met the management team first.

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's focus is on companies that are out of favour with the market, and these stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller and AIM-listed companies, which can be more unpredictable and difficult to buy and sell. Diversification across industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 July 2016, for the year ended 30 June 2016

Performance against objective

The M&G Recovery Fund aims to deliver growth of capital by investing at least 80% of the fund in a range of shares in companies that are out of favour with the stockmarket, where the fund manager believes a good management team is making concerted efforts to turn the business around. In a challenging market, the fund failed to achieve its objective as it produced a negative total return (the combination of income and growth of capital) across all share classes between 2 July 2015 (the start of the review period) and 1 July 2016.^[a] The fund's returns also lagged a comparative index, the FTSE All-Share Index (returns from the index were +2,2% and +3,1% in sterling and euro respectively over the 12 months).

Investment performance

The first half of the review period (the last six months of 2015) was particularly difficult for the fund as the market environment reverted to one where risk-averse sentiment dominated once more. Uncertainty around the macroeconomic environment, weak sentiment and low confidence led investors to safer stocks where there is a greater element of certainty around companies' future earnings. Even when the market was rising, the shares leading the rise were the lower-risk stocks.

These conditions continued into 2016, where stockmarkets saw the worst start to a year for two decades. Confidence began to recover, though, from mid-February 2016, boosting risk appetite, with commodity prices stabilising and oil prices rebounding. This, alongside good stock-specific news from many of our companies, was positive for the portfolio. Resource stocks and pharmaceuticals, in particular, did well and we were rewarded by our decision to top up our resources holdings in late January when their prices were at a low point. The fund substantially outperformed the broader market between mid-February and mid-June, a particularly encouraging sign.

Not surprisingly, though, performance over 2016 so far has been skewed by the events of the last week of June 2016 following the UK electorate's unexpected decision to leave (Brexit) the European Union (EU). In the aftermath of the Brexit vote, shares sold off indiscriminately, with the more domestically focused mid-sized FTSE 250 stocks and the smaller-sized stocks particularly hard hit, although the share prices of larger companies, where we have a sizeable underweight position, recovered within days.

The referendum result triggered a sharp fall in the value of the pound and a stampede into perceived 'safe havens', including gold, the Japanese yen and the US dollar. In the stockmarket, this unwillingness to take on risk was reflected by investors switching into shares of large multinationals, notably defensives such as healthcare and consumer goods stocks, and other beneficiaries of sterling weakness. Unfortunately, this was a severe headwind for the fund and undid much of the real gains achieved since mid-February.

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Investment review

Investment performance (continued)

Over the 12 months, almost a quarter of the underperformance came from the fund's lack of consumer goods stocks that have performed so well. This sector contains a large number of well-established, well-run companies – such as those in the drinks and tobacco industries. These companies are seen as relatively 'safe' investments and therefore do not qualify as recovery stocks. For example, not holding British American Tobacco on the portfolio was particularly detrimental to relative performance due to its sizeable weighting in the FTSE All-Share Index.

In the oil & gas sector, stock-specific issues in Gulf Keystone Petroleum (consequently sold) and Nostrum Oil & Gas, as well as a significant underweight in oil major Royal Dutch Shell, detracted from performance. Strong performance from BP was not enough to offset these detractors. Of the oil majors, arguably BP has the strongest combination of sharply falling costs, good project pipeline and cashflow. Nostrum is a very well-run company seeking to double its production within a couple of years. At this time, however, it is relatively unknown by institutional investors, hence has not yet seen its shares fully bounce back to last year's levels, despite the improved oil price.

In consumer services, some of our companies had stock-specific issues, notably Entertainment One (eOne), Mothercare and Enterprise Inns. Media company eOne raised finance with a £285 million bond issue that followed hard on the heels of a £193.6 million rights issue to fund the purchase of a further 35% stake in Peppa Pig, taking its holding to 85% at the end of the third quarter of 2015. The size of the bond issue surprised the market and raised questions over the company's finances. However, eOne has been acquisitive in the past and we believe these funds are for future acquisitions. Indeed, eOne, a beneficiary of a stronger US dollar, looks well placed with a valuable film division and its television and family units exhibiting strong growth.

Mothercare, a longstanding holding, remains on track in its UK turnaround plan, supported by an improving online business. The company has also made further progress on its UK refurbishment plans and the closure of unprofitable stores. The international business has been challenging, due to weaker growth in emerging markets, but particularly foreign currency pressures, so a weaker pound should help.

Pub operator Enterprise Inns has a sound strategy to reduce its debts, which should see its share price better reflect the tremendous value of its portfolio of pubs. But for now, Brexit fears, poor weather and England's early exit from the European football championships have tainted sentiment towards the shares.

Elsewhere, Avanti Communications saw further weakness in its share price amidst investor frustration at the speed at which it is winning new business and profit warnings by others within the satellite industry. In the healthcare sector, regenerative medicine company Mesoblast saw a substantial fall in its share price after announcing the withdrawal of a development partner. However, Mesoblast has secured equity finance to fund the company until another partner is found, and we remain encouraged at the potential of this company.

Although I acknowledge the poor performance of the fund overall, we feel it is important to highlight some positives across the portfolio, particularly in the basic materials sector, which added the most to performance over the 12 months. Australian gold miner St Barbara

added the most value on the portfolio. Over 2015, the management successfully disposed of a loss-making asset and turned another around to be profitable. With the cash generated by its two key assets in Australia and Papua New Guinea, the company continually surprised the market with how quickly it has reduced its debt burden. More recently, St Barbara has further benefited from having US dollar-based earnings and a higher gold price. The shares were up some 150% (in sterling terms) over the period.

In the healthcare sector, GW Pharmaceuticals announced positive results for the first two out of four Phase Three trials to come this year for its cannabinoid treatment Epidiolex for severe childhood epilepsy. Given the strength of the data, the treatment is expected to receive approval from the US Food and Drug Administration (FDA) in 2017. The stock was volatile over the period, along with the biotech sector, but we believe it will once again be a significant contributor to performance over the next couple of years as it moves into commercial production of this latest drug.

Elsewhere, we saw a strong performance from KSK Power. The Indian electricity firm is making good progress building out its huge plant, Mahanadi, where the second boiler is now lit. This means the company's cashflow should now allow the development of the next four boilers. Completion of Mahanadi would transform the company. We are also seeing good returns coming through in industrials Stobart Group, Homeserve and Regus. Stobart recently delivered another set of good results along with a positive outlook and a doubling of its dividend, amply demonstrating the management's confidence. Homeserve has at last seen its share price return above the level it was at in 2011 prior to the announcement the company was to be investigated by the Financial Conduct Authority (FCA) – the fund invested towards the end of that year after the shares had collapsed – and this holding has turned into a terrific investment for the fund.

Flexible workspace provider Regus has continued to deliver on its promises, is generating strong cashflow and is improving its business efficiency. Regus is the market leader globally in the temporary office rental space. It operates in a fragmented market with a large number of smaller competitors giving the company a significant scale advantage. Regus has a strong balance sheet and is able to self-fund its worldwide expansion in a structurally growing market that is currently benefiting from an increasing trend towards flexible working practices.

Investment activities

Mergers & acquisitions (M&A) activity slows

M&A activity was buoyant across the market during the first half of the period, a trend that was reflected in the fund, although at a lower level than we expected. As we noted in our last annual report, healthcare equipment company Synergy Health was bid for in a cash and share deal at an attractive premium by US peer, Steris. The deal closed in November 2015 and we continue to hold the Steris shares on the fund as the combination of the two businesses looks compelling and we should reap further rewards.

In the technology sector, UK set-top box maker Pace was also bid for by a US peer, Arris, in another cash plus shares offer. Pace had already been an excellent holding for the fund and the deal closed early in 2016 – we subsequently sold the Arris shares in April. Elsewhere, the stake in clean energy company Greenko was sold following a takeover approach from GIC, a sovereign wealth fund.

M&G Recovery Fund

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Investment review

Investment activities (continued)

Since then, there have been no further takeover approaches for companies held on the fund. The recent fall in sterling could make UK companies more attractive to overseas buyers, but a takeover has to be to the benefit of our investors and to all shareholders in a company. We are not going to simply pass the value of a company over to someone else.

Portfolio changes

Providing appropriate financial backing for both new and existing turnaround candidates is an integral part of the investment approach of the fund and we helped a number of our companies to raise funds over the 12-month period. These included Dalata Hotels Group, REA Holdings, Oxford Biomedica and Sierra Rutile.

The new additions to the portfolio over the period included insurance, investment and travel operator Saga, Irish hotels group Dalata, lithium miner Bacanora Minerals and commercial aircraft leasing company Avation. Complete sales included the bank note and passport printer De La Rue, Gulf Keystone Petroleum, clean energy company Greenko and Irish insulation panels company Kingspan.

In our opinion, Saga has an under-exploited brand and a strong new management team that is focused on improving returns. Saga appears to be making solid progress. Its broker model, focused on the 50-and-above demographic, is unique in the UK financial services sector, and the rollout of a number of new initiatives across insurance, investment and travel, should offer good growth potential.

Dalata Hotels, based in Ireland, acquires and operates distressed hotels. Many of these are businesses that fell into difficulties following the financial crisis in 2008 and are now being released for sale by the National Asset Management Agency. Dalata buys the hotels at favourable prices, appoints good management teams and introduces efficient processes with the aim of turning these hotels back into viable businesses.

Lithium miner Bacanora Minerals operates the Sonora lithium project in Northern Mexico. The project has the potential to deliver robust investment returns in the structurally attractive lithium market, where demand growth is supported by electric vehicle sales, a positive and growing demand trend. Bacanora recently concluded a supply contract with electric car manufacturer, Tesla Motors, which increased the company's profile and raised awareness of the positive fundamentals of the lithium battery supply chain.

Commercial aircraft leasing company, Avation is in the midst of a major fleet expansion, adding scale and customer diversification. It has built a strong position in leasing turboprops, and is now leveraging the resulting relationships and experience into the narrowbody market, with particular emphasis on the proven and popular Airbus A320/A321 family.

Of the sales, Greenko was sold following a bid approach, while De La Rue and Gulf Keystone were sold as our hopes for a recovery in these companies appear to have been misplaced. We are long-term investors, but we do not shy away from making tough decisions if things do not go to plan. Unfortunately, our sales of De La Rue and Gulf Keystone are examples of that.

However, Kingspan was sold having successfully completed its recovery journey and having made a significant contribution to performance over the past few years.

Outlook

To sum up, we continue to encounter a tough market environment but we were very much encouraged by the progress we saw across the portfolio prior to the volatility and market sell-off following the Brexit vote. Clearly, the current sentiment in markets is 'uncertainty' and perhaps the greatest challenge we face in the near term is from heightened investor risk aversion. That said, the fund is well positioned with a number of sizeable holdings beginning to make the transition from stage 2 to stage 3 of the recovery process, essentially 'de-risking' as they deliver improving shareholder returns. We believe that when the political and economic noise dies down and the market looks at companies individually rather than en masse once more, the inherent value in our holdings across the portfolio will become apparent.

Tom Dobell

Fund manager

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

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

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

Investments

Portfolio statement

as at 30 June Holding	2016 £'000	2016 %	2015 [a] %
Oil and gas producers	457.114	14,07	12,52
15.981.018 African Petroleum	4.207	0,13	
24.075.500 African Petroleum Wts. 2017	0	0,00	
64.000.000 BP	275.360	8,48	
10.558.070 Nostrum Oil & Gas	32.492	1,00	
3.727.000 Royal Dutch Shell 'B'	75.248	2,31	
38.373.084 Tap Oil	1.952	0,06	
25.500.000 Tullow Oil	67.855	2,09	
Oil equipment, services & distribution	40.432	1,25	1,62
12.890.966 Cape	25.266	0,78	
20.288.657 Lamprell	15.166	0,47	
Alternative energy	13.410	0,41	0,41
4.000.000 Porvair	13.410	0,41	
Industrial metals and mining	73.571	2,26	1,89
13.900.000 First Quantum Metals	73.571	2,26	
Mining	211.804	6,52	4,69
8.399.642 Bacanora Minerals [b]	7.979	0,25	
340.553.963 Coal of Africa [b]	12.771	0,39	
453.288.462 Kenmare Resources	3.400	0,10	
8.157.692 Kenmare Resources Wts. 2019	0	0,00	
28.900.000 Petra Diamonds	34.680	1,07	
2.410.097 Rio Tinto	54.782	1,69	
115.355.448 Sierra Rutile [b]	24.801	0,76	
42.794.479 St Barbara	69.795	2,15	
28.247.500 Sylvania Platinum [b]	1.907	0,06	
55.536.586 White Energy Company	1.689	0,05	

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Investments

Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 ^[a] %
Construction & materials	139.308	4,29	4,35
17.000.000 Balfour Beatty	35.989	1,11	
4.887.372 CRH	103.319	3,18	
Aerospace & defence	80.051	2,47	2,63
18.540.000 Cobham	29.442	0,91	
7.588.000 Meggitt	30.625	0,94	
9.100.000 QuinetiQ Group	19.984	0,62	
General industrials	65.072	2,00	2,01
5.810.000 Smiths Group	65.072	2,00	
Electronic & electrical equipment	38.337	1,19	1,35
6.655.000 Morgan Advanced Materials	15.140	0,47	
16.307.917 Silix Systems	2.795	0,09	
4.994.395 Xaar	20.402	0,63	
Industrial engineering	31.797	0,98	1,21
26.500.000 Renold	9.010	0,28	
40.143.706 Severfield	20.072	0,62	
83.539.919 TP Group	2.715	0,08	
Industrial transportation	52.554	1,62	1,30
28.000.000 Stobart Group	43.470	1,34	
2.949.418 UK Mail Group	9.084	0,28	
Support services	236.940	7,30	8,54
140.636.743 Coats Group	36.917	1,14	
10.785.714 Homeserve	56.733	1,75	
8.907.815 Lavendon Group	32.449	1,00	
10.278.053 Regeneris ^[b]	18.295	0,56	
32.759.657 Regus	92.546	2,85	
Beverages	28.343	0,87	0,82
10.000.000 C&C Group	28.343	0,87	
Food producers	48.937	1,50	1,82
6.683.630 REA Holdings	15.723	0,48	
859.353 Unilever	29.905	0,92	
44.113.908 Zamboni Products ^[b]	3.309	0,10	
Healthcare equipment & services	0	0,00	0,85
Pharmaceuticals & biotechnology	388.183	11,95	10,54
2.750.000 BTG	19.388	0,60	
9.322.159 Eco Animal Health ^[b]	34.492	1,06	
6.247.000 GlaxoSmithKline	96.985	2,99	
10.609.279 GW Pharmaceuticals ^[b]	62.223	1,92	
1.151.600 GW Pharmaceuticals ADR ^[b]	79.540	2,45	
680.851 Hutchison China Meditech ADR	6.618	0,20	
34.815.535 Mesoblast	20.596	0,63	
1.029.597 Mesoblast ADR	2.954	0,09	
466.658.885 Oxford Biomedica	20.113	0,62	
906.557 STERIS	45.274	1,39	
Food & drug retailers	50.095	1,54	1,53
8.600.000 UDG Healthcare	50.095	1,54	
General retailers	127.729	3,93	2,61
11.600.000 Dixons Carphone	37.132	1,14	
5.500.000 Kingfisher	17.639	0,54	
19.899.040 Mothercare	26.466	0,82	
24.443.560 Saga	46.492	1,43	
Media	116.078	3,57	3,03
30.000.000 Entertainment One	49.620	1,53	
3.000.000 Pearson	28.590	0,88	
4.500.000 Sky	37.868	1,16	

Portfolio statement (continued)

as at 30 June Holding	2016 £'000	2016 %	2015 ^[a] %
Travel & leisure	223.448	6,87	6,42
2.445.377 Carnival	79.744	2,45	
6.000.000 Dalata Hotel Group	18.111	0,56	
3.685.291 easyjet	39.211	1,21	
49.990.240 Enterprise Inns	40.117	1,23	
9.953.436 fastjet	2.339	0,07	
15.100.000 National Express	43.926	1,35	
Mobile telecommunications	21.677	0,67	1,22
27.359.073 Avanti Communications	16.073	0,50	
700.000 Inmarsat	5.604	0,17	
Electricity	54.372	1,67	1,45
16.592.508 Great Eastern Energy	3.650	0,11	
34.149.791 KSK Power Ventur	27.320	0,84	
38.681.231 OPG Power Ventures ^[b]	23.402	0,72	
Banks	369.578	11,38	13,15
41.455.000 HSBC Holdings	189.097	5,82	
200.000.000 Lloyds Banking Group	108.080	3,33	
22.555.000 Royal Bank of Scotland Group	38.772	1,19	
6.015.951 Standard Chartered	33.629	1,04	
Non-life insurance	28.758	0,89	1,03
3.855.000 Novae Group	28.758	0,89	
Life insurance	202.129	6,22	7,28
24.890.000 Aviva	96.474	2,97	
8.500.000 Prudential ^[c]	105.655	3,25	
Financial services	63.861	1,96	1,15
4.200.000 Avation	5.838	0,18	
30.000.000 BCA Marketplace	49.800	1,53	
2.750.000 Tullett Prebon	8.223	0,25	
Equity investment instruments	3.161	0,10	0,06
410.580 Gresham House Strategic ^[b]	3.161	0,10	
Software & computer services	20.676	0,64	1,04
5.563.157 Actual Experience ^[b]	14.464	0,45	
2.916.666 Watchstone (formerly Quindell) ^[b]	6.212	0,19	
Technology hardware & equipment	55.214	1,70	3,48
26.303.827 Imagination Technologies Group	49.648	1,53	
318.050.895 Toumaz ^[b]	5.566	0,17	
Unquoted / unlisted	0	0,00	0,00
38.761.085 African Minerals ^[d]	0	0,00	
39.868.814 Alizyme ^[d]	0	0,00	
3.094.020 Izodia ^[d]	0	0,00	
Portfolio of investments	3.242.629	99,82	100,00
'AAA' rated money market funds ^[e]	14.681	0,45	0,00
14.681.000 Northern Trust Global Fund - Sterling	14.681	0,45	
Total portfolio (notes 2c & 2d on page 6)	3.257.310	100,27	100,00
Net other assets / (liabilities)	(8.779)	(0,27)	0,00
Net assets attributable to shareholders	3.248.531	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] AIM quoted.

^[c] Related party to the fund.

^[d] Suspended.

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

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Investments

Top ten portfolio transactions

for the year to 30 June 2016

Largest purchases	£'000
GW Pharanaceuticals ADR	69.047
Saga	50.183
Arris International	27.385
Pearson	25.311
Kingfisher	19.086
Dalata Hotel Group	19.024
Tullow Oil	15.472
STERIS	15.107
Entertainment One	14.592
First Quantum Minerals	10.887
Other purchases	61.898
Total purchases	327.992
Largest sales	£'000
Kingspan Group	76.228
BTG	70.132
GW Pharanaceuticals	68.323
Pace	66.145
Prudential ^[a]	52.815
Regus	46.788
Arris International	43.627
BP	42.162
Unilever	36.313
Aggreko	33.330
Other sales	498.889
Total sales	1.034.752

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

[a] Related party to the fund.

M&G Recovery 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 (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2016 £'000	2015 £'000	2014 £'000
Fund net asset value (NAV)	3,248,531	4,505,084	6,522,129

Share class performance since launch

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



Ten-year performance

Please note that the fund's comparative index is not available from inception, however a ten-year comparable performance chart is shown below.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 15 January 2010. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Recovery Fund

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Fund performance

To give an indication of the long-term 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 01.07.15 % ^[a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Euro^[b]				
Class 'A'	-24,3	-1,7	+1,0	+5,9 ^[c]
Class 'C'	-23,7	-0,9	+1,8	+6,7 ^[c]
Sterling^[b]				
Class 'A'	-10,6	-2,4	-0,5	+13,8 ^[d]
Class 'C'	-9,2	-1,0	+1,0	+8,3 ^[e]
Class 'I'	-9,9	-1,7	+0,2	+2,7 ^[f]
Class 'R'	-10,1	-1,9	n/a	+0,9 ^[g]
Class 'X'	-10,6	-2,4	-0,5	+8,3 ^[h]

^[a] Absolute basis.

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

^[c] 29 November 2002, the launch date of the share class.

^[d] 23 May 1969, the end of the initial offer period of the predecessor unit trust.

^[e] 1 July 2004, the launch date of the share class.

^[f] 15 January 2010, the launch date of the share class.

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

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

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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				
as at 30 June	2016	2015	2014	Average ^[a]
Direct portfolio transaction costs^[b]	%	%	%	%
Broker commission	0,04	0,04	0,02	0,03
Taxes	0,02	0,02	0,02	0,02
Costs before dilution adjustments	0,06	0,06	0,04	0,05
Dilution adjustments ^[c]	(0,03)	(0,06)	(0,04)	(0,04)
Total direct portfolio transaction costs	0,03	0,00	0,00	0,01
as at 30 June	2016	2015	2014	Average^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,79	0,57	0,55	0,64

^[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 Recovery Fund

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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 29 November 2002.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	2,836,50	2,603,27	2,265,36
Return before operating charges and after direct portfolio transaction costs	(634,19)	276,93	379,54
Operating charges	(40,70)	(43,70)	(41,63)
Return after operating charges	(674,89)	233,23	337,91
Closing NAV	2,161,61	2,836,50	2,603,27
Retained distributions	25,87	18,45	22,06
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1,28	1,72	1,12
Dilution adjustments ^[b]	(0,64)	(1,53)	(1,12)
Total direct portfolio transaction costs	0,64	0,19	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	1,66	1,66	1,65
Return after operating charges	-23,79	+8,96	+14,92
Historic yield	1,20	0,64	0,86
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	10,559	22,647	51,769
Closing NAV percentage of total fund NAV (%)	0,33	0,50	0,79
Number of shares	591,129	1,122,199	2,481,737
Highest share price (Euro ¢)	2,943,87	2,974,12	2,693,88
Lowest share price (Euro ¢)	1,943,75	2,263,77	2,284,14

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2016 Euro ¢	2015 Euro ¢	2014 Euro ¢
Opening NAV	3,122,73	2,844,54	2,456,73
Return before operating charges and after direct portfolio transaction costs	(700,31)	304,39	412,53
Operating charges	(24,73)	(26,20)	(24,72)
Return after operating charges	(725,04)	278,19	387,81
Closing NAV	2,397,69	3,122,73	2,844,54
Retained distributions	48,04	42,57	44,34
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1,41	1,88	1,22
Dilution adjustments ^[b]	(0,70)	(1,67)	(1,22)
Total direct portfolio transaction costs	0,71	0,21	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	0,92	0,91	0,90
Return after operating charges	-23,22	+9,78	+15,79
Historic yield	2,01	1,35	1,57
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	9,441	52,748	143,693
Closing NAV percentage of total fund NAV (%)	0,29	1,17	2,20
Number of shares	476,506	2,374,244	6,304,200
Highest share price (Euro ¢)	3,242,26	3,271,90	2,936,05
Lowest share price (Euro ¢)	2,149,91	2,479,26	2,477,15

Sterling Class 'A' Income share performance

The share class was launched on 27 June 1977.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	127,83	133,04	124,98
Return before operating charges and after direct portfolio transaction costs	(12,77)	(2,21)	11,41
Operating charges	(1,91)	(2,12)	(2,23)
Return after operating charges	(14,68)	(4,33)	9,18
Distributions	(1,30)	(0,88)	(1,12)
Closing NAV	111,85	127,83	133,04
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,06	0,08	0,06
Dilution adjustments ^[b]	(0,03)	(0,07)	(0,06)
Total direct portfolio transaction costs	0,03	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	1,66	1,66	1,65
Return after operating charges	-11,48	-3,25	+7,35
Historic yield	1,14	0,68	0,86
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	463,186	664,201	944,250
Closing NAV percentage of total fund NAV (%)	14,26	14,74	14,48
Number of shares	414,104,046	519,614,031	709,730,177
Highest share price (UK p)	129,92	135,63	142,03
Lowest share price (UK p)	96,44	115,11	125,00

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Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 23 May 1969.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	287,04	296,70	276,43
Return before operating charges and after direct portfolio transaction costs	(28,67)	(4,93)	25,20
Operating charges	(4,31)	(4,73)	(4,93)
Return after operating charges	(32,98)	(9,66)	20,27
Closing NAV	254,06	287,04	296,70
Retained distributions	2,91	1,97	2,48
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,14	0,19	0,13
Dilution adjustments ^[b]	(0,07)	(0,17)	(0,13)
Total direct portfolio transaction costs	0,07	0,02	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	1,66	1,66	1,65
Return after operating charges	-11,49	-3,26	+7,33
Historic yield	1,13	0,68	0,85
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	983.361	1.646.231	2.431.740
Closing NAV percentage of total fund NAV (%)	30,27	36,54	37,28
Number of shares	387.051.472	573.521.234	819.599.343
Highest share price (UK p)	291,71	302,46	314,89
Lowest share price (UK p)	217,43	256,70	276,45

Sterling Class 'C' Income share performance

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

The share class was launched on 1 July 2004.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	128,14	133,39	125,30
Return before operating charges and after direct portfolio transaction costs	(12,82)	(2,23)	11,47
Operating charges	(0,18)	(0,20)	(0,21)
Return after operating charges	(13,00)	(2,43)	11,26
Distributions	(3,04)	(2,82)	(3,17)
Closing NAV	112,10	128,14	133,39
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,06	0,08	0,06
Dilution adjustments ^[b]	(0,03)	(0,07)	(0,06)
Total direct portfolio transaction costs	0,03	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	0,16	0,16	0,15
Return after operating charges	-10,15	-1,82	+8,99
Historic yield	2,68	2,18	2,41
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	100.463	128.312	152.322
Closing NAV percentage of total fund NAV (%)	3,09	2,85	2,34
Number of shares	89.619.819	100.137.925	114.190.611
Highest share price (UK p)	130,33	136,02	142,82
Lowest share price (UK p)	96,83	115,95	125,35

Sterling Class 'C' Accumulation share performance

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

The share class was launched on 1 July 2004.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	336,17	342,33	314,19
Return before operating charges and after direct portfolio transaction costs	(33,64)	(5,64)	28,67
Operating charges	(0,47)	(0,52)	(0,53)
Return after operating charges	(34,11)	(6,16)	28,14
Closing NAV	302,06	336,17	342,33
Retained distributions	8,03	7,27	7,99
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,16	0,22	0,15
Dilution adjustments ^[b]	(0,08)	(0,19)	(0,15)
Total direct portfolio transaction costs	0,08	0,03	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	0,16	0,16	0,15
Return after operating charges	-10,15	-1,80	+8,96
Historic yield	2,63	2,14	2,37
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	679.884	860.896	1.220.160
Closing NAV percentage of total fund NAV (%)	20,93	19,11	18,71
Number of shares	225.080.167	256.086.785	356.432.772
Highest share price (UK p)	341,89	351,57	361,61
Lowest share price (UK p)	257,03	297,54	314,25

Sterling Class 'I' Income share performance

The share class was launched on 15 January 2010.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	127,75	132,98	124,92
Return before operating charges and after direct portfolio transaction costs	(12,77)	(2,22)	11,42
Operating charges	(1,05)	(1,16)	(1,22)
Return after operating charges	(13,82)	(3,38)	10,20
Distributions	(2,16)	(1,85)	(2,14)
Closing NAV	111,77	127,75	132,98
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,06	0,08	0,06
Dilution adjustments ^[b]	(0,03)	(0,07)	(0,06)
Total direct portfolio transaction costs	0,03	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	0,91	0,91	0,90
Return after operating charges	-10,82	-2,54	+8,17
Historic yield	1,91	1,43	1,63
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	158.735	221.119	423.918
Closing NAV percentage of total fund NAV (%)	4,89	4,91	6,50
Number of shares	142.016.993	173.091.131	318.790.000
Highest share price (UK p)	129,89	135,58	142,17
Lowest share price (UK p)	96,46	115,32	124,95

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Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 15 January 2010.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	298,06	305,78	282,76
Return before operating charges and after direct portfolio transaction costs	(29,81)	(5,03)	25,83
Operating charges	(2,44)	(2,69)	(2,81)
Return after operating charges	(32,25)	(7,72)	23,02
Closing NAV	265,81	298,06	305,78
Retained distributions	5,07	4,27	4,86
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,14	0,19	0,14
Dilution adjustments ^[b]	(0,07)	(0,17)	(0,14)
Total direct portfolio transaction costs	0,07	0,02	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	0,91	0,91	0,90
Return after operating charges	-10,82	-2,52	+8,14
Historic yield	1,89	1,42	1,62
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	606.968	557.780	581.478
Closing NAV percentage of total fund NAV (%)	18,68	12,38	8,92
Number of shares	228.343.644	187.139.455	190.163.000
Highest share price (UK p)	303,01	311,95	323,76
Lowest share price (UK p)	226,83	265,17	282,80

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	109,87	114,36	107,43
Return before operating charges and after direct portfolio transaction costs	(10,99)	(1,90)	9,83
Operating charges	(1,14)	(1,28)	(1,35)
Return after operating charges	(12,13)	(3,18)	8,48
Distributions	(1,61)	(1,31)	(1,55)
Closing NAV	96,13	109,87	114,36
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,05	0,07	0,05
Dilution adjustments ^[b]	(0,03)	(0,06)	(0,05)
Total direct portfolio transaction costs	0,02	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	-11,04	-2,78	+7,89
Historic yield	1,66	1,19	1,37
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	1.776	2.220	2.273
Closing NAV percentage of total fund NAV (%)	0,05	0,05	0,03
Number of shares	1.847.161	2.020.934	1.988.000
Highest share price (UK p)	111,69	116,60	122,21
Lowest share price (UK p)	82,93	99,10	107,46

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	114,35	117,60	109,02
Return before operating charges and after direct portfolio transaction costs	(11,43)	(1,94)	9,95
Operating charges	(1,20)	(1,31)	(1,37)
Return after operating charges	(12,63)	(3,25)	8,58
Closing NAV	101,72	114,35	117,60
Retained distributions	1,68	1,35	1,55
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,05	0,07	0,05
Dilution adjustments ^[b]	(0,03)	(0,07)	(0,05)
Total direct portfolio transaction costs	0,02	0,00	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	-11,05	-2,76	+7,87
Historic yield	1,63	1,17	1,34
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	920	1.736	2.414
Closing NAV percentage of total fund NAV (%)	0,03	0,04	0,04
Number of shares	904.763	1.517.777	2.052.600
Highest share price (UK p)	116,23	119,90	124,62
Lowest share price (UK p)	86,89	101,91	109,04

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	128,66	133,91	125,80
Return before operating charges and after direct portfolio transaction costs	(12,86)	(2,23)	11,49
Operating charges	(1,92)	(2,13)	(2,25)
Return after operating charges	(14,78)	(4,36)	9,24
Distributions	(1,30)	(0,89)	(1,13)
Closing NAV	112,58	128,66	133,91
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,06	0,08	0,06
Dilution adjustments ^[b]	(0,03)	(0,07)	(0,06)
Total direct portfolio transaction costs	0,03	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	1,66	1,66	1,65
Return after operating charges	-11,49	-3,26	+7,34
Historic yield	1,14	0,68	0,86
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	80.856	115.287	147.887
Closing NAV percentage of total fund NAV (%)	2,49	2,56	2,27
Number of shares	71.819.773	89.605.786	110.434.476
Highest share price (UK p)	130,76	136,51	142,96
Lowest share price (UK p)	97,07	115,87	125,82

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Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June	2016	2015	2014
Change in NAV per share	UK p	UK p	UK p
Opening NAV	284,03	293,59	273,53
Return before operating charges and after direct portfolio transaction costs	(28,37)	(4,88)	24,95
Operating charges	(4,26)	(4,68)	(4,89)
Return after operating charges	(32,63)	(9,56)	20,06
Closing NAV	251,40	284,03	293,59
Retained distributions	2,89	1,93	2,45
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,13	0,18	0,13
Dilution adjustments ^[b]	(0,07)	(0,16)	(0,13)
Total direct portfolio transaction costs	0,06	0,02	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,03	0,00	0,00
Operating charges	1,66	1,66	1,65
Return after operating charges	-11,49	-3,26	+7,33
Historic yield	1,13	0,68	0,85
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	152.382	231.907	420.225
Closing NAV percentage of total fund NAV (%)	4,69	5,15	6,44
Number of shares	60.612.884	81.649.090	143.134.560
Highest share price (UK p)	288,65	299,28	311,59
Lowest share price (UK p)	215,15	254,01	273,55

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

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

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Financial statements and notes

Financial statements

Statement of total return					
for the year to 30 June	Note	2016		2015	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(555.367)		(290.405)
Revenue	5	109.677		136.131	
Expenses	6	(42.970)		(63.984) ^[a]	
Net revenue / (expense) before taxation		66.707		72.147	
Taxation	7	(83)		(376)	
Net revenue / (expense) after taxation			66.624		71.771
Total return before distributions			(488.743)		(218.634)
Distributions	8		(60.381)		(62.169)
Change in net assets attributable to shareholders from investment activities			(549.124)		(280.803)

Statement of change in net assets attributable to shareholders					
for the year to 30 June		2016		2015	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			4.505.084		6.522.129
Amounts received on issue of shares		305.290		284.786 ^[a]	
Amounts paid on cancellation of shares		(1.060.491)		(2.071.634) ^[a]	
			(755.201)		(1.786.848)
Dilution adjustments			2.971		7.128 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)			(549.124)		(280.803)
Retained distributions on Accumulation shares			44.759		43.441
Unclaimed distributions			42		37
Closing net assets attributable to shareholders			3.248.531		4.505.084

Balance sheet				
as at 30 June	Note	2016	2015	
		£'000	£'000	
Assets				
Fixed assets				
Investments		3.257.310	4.505.098	
Current assets				
Debtors	9	7.937	32.979	
Cash and bank balances	10	2.542	0	
Total assets		3.267.789	4.538.077	
Liabilities				
Creditors				
Bank overdrafts		(7.102)	(13.227)	
Distribution payable		(7.383)	(5.945)	
Other creditors	11	(4.773)	(13.821)	
Total liabilities		(19.258)	(32.993)	
Net assets attributable to shareholders		3.248.531	4.505.084	

^[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling £2.971.000 (2015: £7.128.000) have been reclassified from 'Amounts received on issue of shares' of £(1.064.000) (2015: £(1.167.000)) and 'Amounts paid on cancellation of shares' of £4.035.000 (2015: £8.295.000).

Interest payable of £11.000 (2015: £9.000) has been reclassified from 'Distributions' into 'Expenses'.

2 Distribution policy

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

3 Net capital gains / (losses)

for the year to 30 June	2016	2015
	£'000	£'000
Non-derivative securities	(555.710)	(290.768)
Currency gains / (losses)	353	377
Transaction charges	(10)	(14)
Net capital gains / (losses)	(555.367)	(290.405)

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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 149.

for the year to 30 June	2016 £'000	% of transaction	2015 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	326.931		410.547	
Commissions	224	0,07	220	0,05
Taxes	837	0,26	1.248	0,30
Total purchases after transaction costs	327.992		412.015	

b) Sales				
Equities				
Equities before transaction costs	1.035.834		2.138.481	
Commissions	(1.080)	0,10	(2.032)	0,10
Taxes	(2)	0,00	(3)	0,00
Total sales after transaction costs	1.034.752		2.136.446	

c) Direct portfolio transaction costs	2016 £'000	% of average NAV	2015 £'000	% of average NAV
Commissions paid				
Equities	1.304	0,04	2.252	0,04
Taxes paid				
Equities	839	0,02	1.251	0,02
Total direct portfolio transaction costs	2.143	0,06	3.503	0,06

d) Indirect portfolio transaction costs	%	%
Portfolio dealing spread ^[b]	0,79	0,57

^[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 30 June	2016 £'000	2015 £'000
Bank interest	19	1
Dividends from equity investments: non-taxable	102.911	126.055
Interest distributions	53	88
Stock dividends	6.243	9.602
Underwriting commission	451	385
Total revenue	109.677	136.131

6 Expenses

for the year to 30 June	2016 £'000	2015 £'000
Payable to the ACD or associate		
Annual management charge	37.147	55.535
Administration charge	5.584	8.000
	42.731	63.535
Payable to the Depository or associate		
Depository's charge (including VAT)	136	184
Other expenses		
Audit fee (including VAT)	9	7
Interest payable	11	9
Regulatory fees	0	2
Safe custody charge	69	228
Tax fees (including VAT) ^[a]	14	19
	103	265
Total expenses	42.970	63.984

^[a] Fees of £nil (2015: £2.000) paid to overseas firms affiliated with Ernst & Young LLP.

7 Taxation

for the year to 30 June	2016 £'000	2015 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	83	376
Deferred tax (note 7c)	0	0
Total taxation	83	376
b) Factors affecting taxation charge for the year		
Net revenue before taxation	66.707	72.147
Corporation tax at 20%	13.341	14.430
Effects of:		
Dividends from equity investments: non-taxable	(20.582)	(25.260)
Stock dividends not taxable	(1.249)	(1.921)
Current year expenses not utilised	8.461	12.830
Withholding tax	83	376
Prior year adjustment to expenses not utilised	29	(79)
Total tax charge (note 7a)	83	376
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 £139.153.000 (2015: £130.692.000) 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 30 June	2016		2015	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
Interim	5.207	19.294	6.372	22.449
Final	7.383	25.465	5.945	20.992
Total net distributions		57.349		55.758
Income deducted on cancellation of shares		4.611		7.338
Income received on issue of shares		(1.579)		(927)
Distributions		60.381		62.169
Net revenue per statement of total return		66.624		71.771
Stock dividends not distributed		(6.243)		(9.602)
Undistributed income brought forward		2		1
Undistributed income carried forward		(2)		(1)
Distributions		60.381		62.169

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

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9 Debtors

as at 30 June	2016 £'000	2015 £'000
Amounts receivable on issues of shares	608	40
Currency deals outstanding	0	1,030
Distributions receivable	3	1
Dividends receivable	6,231	7,930
Sales awaiting settlement	792	23,584
Withholding tax recoverable	303	394
Total debtors	7,937	32,979

10 Cash and bank balances

as at 30 June	2016 £'000	2015 £'000
Cash held as bank balances	2,542	0
Total cash and bank balances	2,542	0

11 Other creditors

as at 30 June	2016 £'000	2015 £'000
ACD's annual management charge payable	851	1,049
Administration charge payable	133	152
Amounts payable on cancellation of shares	3,745	11,562
Bank overdraft interest payable	0	3
Currency deals outstanding	0	1,031
Expenses payable	25	20
Purchases awaiting settlement	19	4
Total other creditors	4,773	13,821

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: 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 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Euro				
Class 'A' Income (Net)	1,122,199	38,632	(569,702)	591,129
Class 'C' Accumulation (Net)	2,374,244	216,141	(2,113,879)	476,506
Sterling				
Class 'A' Income (Net)	519,614,031	2,104,687	(107,614,672)	414,104,046
Class 'A' Accumulation (Net)	573,521,234	184,334	(186,654,096)	387,051,472
Class 'C' Income (Net)	100,137,925	1,716,222	(12,234,328)	89,619,819
Class 'C' Accumulation (Net)	256,086,785	5,591,633	(36,598,252)	225,080,166
Class 'I' Income (Net)	173,091,131	51,142,826	(82,216,964)	142,016,993
Class 'I' Accumulation (Net)	187,139,455	81,562,858	(40,358,669)	228,343,644
Class 'R' Income (Net)	2,020,934	577,050	(750,823)	1,847,161
Class 'R' Accumulation (Net)	1,517,777	108,196	(721,210)	904,763
Class 'X' Income (Net)	89,605,786	485,223	(18,271,236)	71,819,773
Class 'X' Accumulation (Net)	81,649,090	2,146,890	(23,183,096)	60,612,884

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	n/a	1,50
Class 'C'	nil	n/a	nil
Class 'I'	1,00	n/a	0,75
Class 'R'	1,00	n/a	1,00
Class 'X'	nil	4,50 ^[a]	1,50

^[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

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 to the ACD in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

During the year, there were transactions in Prudential plc, a related party of M&G Securities Limited with a total value of £52,815,000 (2015: £115,329,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £105,655,000 (2015: £186,659,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 13,31% (2015: 11,76%) of the fund's shares.

16 Events after the balance sheet date

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

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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.

Valuation technique	Assets 2016 £'000	Liabilities 2016 £'000	Assets 2015 £'000	Liabilities 2015 £'000
Level 1	3,242,629	0	4,468,785	0
Level 2	14,681	0	36,313	0
Level 3	0	0	0	0
	3,257,310	0	4,505,098	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

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

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 £162,131,000 (2015: £225,255,000). A five per cent decrease would have an equal and opposite effect.

20 Foreign currency risk sensitivity

A five per cent increase in the value of the fund's foreign currency exposure would have the effect of increasing the return and net assets by £162,427,000 (2015: £225,254,000). A five per cent decrease would have an equal and opposite effect.

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 Currency risk

as at 30 June	2016 £'000	2015 £'000
Currency exposure in respect of the fund		
Australian dollar	98,718	93,088
Canadian dollar	74,053	85,148
Euro	47,191	107,977
New Zealand dollar	0	32,371
Norwegian krone	4,208	3,170
Sterling	2,889,628	4,092,222
US dollar	134,733	91,108
Total	3,245,531	4,505,084

23 Dividend distribution tables

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

Half yearly distribution periods				
	Start	End	Xd	Payment
Interim	01.07.15	31.12.15	04.01.16	29.02.16
Final	01.01.16	30.06.16	01.07.16	31.08.16

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 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	€	€	€	€
Interim	5,2058	4,6403	9,8461	8,3210
Final	7,9011	8,1209	16,0220	10,1289

Euro Class 'C' Accumulation shares				
Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	€	€	€	€
Interim	7,6880	13,6865	21,3745	19,7234
Final	2,3517	24,3159	26,6676	22,8438

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23 Dividend distribution tables (continued)

Sterling Class 'A' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,1637	0,2966	0,4603	0,4139
Final	0,4178	0,4173	0,8351	0,4667

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,3833	0,6481	1,0314	0,9225
Final	1,0677	0,8138	1,8815	1,0454

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,5059	0,8463	1,3522	1,3795
Final	1,2263	0,4643	1,6906	1,4383

Sterling Class 'C' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	1,5214	2,0258	3,5472	3,5393
Final	3,2027	1,2841	4,4868	3,7312

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,3670	0,5373	0,9043	0,8965
Final	0,5896	0,6696	1,2592	0,9492

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,9850	1,1274	2,1124	2,0619
Final	1,4740	1,4877	2,9617	2,2068

Sterling Class 'R' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,0945	0,5559	0,6504	0,6332
Final	0,4830	0,4784	0,9614	0,6813

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,3066	0,3668	0,6734	0,6498
Final	0,5971	0,4093	1,0064	0,7008

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,1806	0,2837	0,4643	0,4168
Final	0,5743	0,2660	0,8403	0,4722

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
	p	p	p	p
Interim	0,4681	0,5553	1,0234	0,9127
Final	1,1558	0,7062	1,8620	1,0211

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests in smaller companies, where good management can have most impact on earnings. Investment in such shares can offer prospects of above average capital growth. Income is not a major factor and the yield can be expected to be less than that of the FTSE All-Share Index.

Investment approach

The fund invests in companies from the bottom 10%, by value, of the UK stockmarket. The investment team takes a bottom-up approach to stockpicking and aims to construct a well-diversified portfolio of between 70 and 90 stocks. They adopt a long-term perspective with particular focus placed on three specific criteria: scarce assets, growth drivers and valuation.

Scarce assets are the key elements that enable companies to generate sustainable, attractive returns. Depending on the nature of the business, scarce assets may be tangible, intangible or organisational.

Growth drivers provide companies with the opportunity to reinvest their returns profitably. They may include shifts in the commercial or regulatory environment, changes in customer behaviour or expansion into new markets.

Valuation is critical for differentiating between great companies and great investments. A comprehensive but flexible approach to company valuation is undertaken; a wide range of metrics are monitored to ensure an appropriate valuation for each individual company.

The quality of company management is central to the successful exploitation of scarce assets and growth drivers. Company meetings are therefore a crucial component of the investment process.

Risk profile

The fund invests in the shares of smaller UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund's focus is on smaller companies and it can also invest in the shares of AIM-listed companies. Shares in both types of company can be more unpredictable and difficult to buy and sell compared to those of larger companies. Diversification 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 30 June 2015 to 25 November 2015 the risk number was 6.

Investment review

As at 1 July 2016, for the year ended 30 June 2016

Performance against objective

Between 1 July 2015 (the start of the review period) and 1 July 2016, the M&G Smaller Companies Fund delivered a negative total return (the combination of income and growth of capital) across all share classes.^[a] Accordingly, over this time frame, the fund did not meet its investment objective of capital growth. The fund also finished the period behind a comparative index, the Numis Smaller Companies ex IT Index.

Investment performance

The UK market was volatile over the 12 months as concerns over the slowing pace of global economic growth, particularly in China, generally vied with worries about the timing of the first upward move in interest rates in almost a decade and, latterly, the UK referendum on membership of the European Union. In the event, the Federal Reserve raised US interest rates in December 2015.

Heightened risk aversion in the early weeks of 2016, partly due to a short-lived pause in US economic growth, brought the worst start to a new year for some time. Mid-February marked a low point for stockmarkets, at least in the short term, as investors responded positively to signs of a softening in the US dollar and indications that some rebalancing was occurring in the oil market. Commodity prices also received a boost thanks to speculation, subsequently confirmed, that the Chinese authorities would take action to promote economic growth.

The more positive mood mostly lasted through to May, whilst June was dominated by the UK referendum. Global stockmarkets, but especially the domestic market, reacted badly to the Brexit outcome, with the FTSE All-Share Index falling by more than 7% initially, before recovering to end the month ahead by 2,8% in total return terms. Arguably, the referendum result had a greater impact on sterling, which finished June down by 8,2% on its trade-weighted index and the year with a 13,5% fall.

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

The positive result by the broad market index reflected a strong performance by the blue-chip FTSE 100 Index, which ended the year with a 3,6% gain as most of the UK's larger companies' revenues are earned overseas. Meanwhile, more domestically exposed medium-sized and smaller companies, as measured by the FTSE 250 and Numis Smaller Companies ex IT indices, ended the year down by 4,5% and 5,9% respectively, having outperformed larger companies in the first half of the fund's year.

Against this volatile backdrop, defensive sectors (those perceived to have stable earnings regardless of the overall state of the economy) tended to outperform economically sensitive, cyclical stocks, with consumer staples, non-life insurance, water utilities and healthcare among the stronger sectors, along with the energy companies. By way of contrast, two big sectors, mining and financials (ex non-life insurance), trailed behind, helping to restrain the broader market advance. Although the mining sector ended the period down by 9,6%, this represented a significant recovery from a 52% fall to a 20 January low point. Within financials, real estate stocks came under pressure as a result of the Brexit outcome, and banks were weak as they contended with low interest rates, PPI claims, fines and the increased cost of regulation. Other high-profile casualties of the Brexit outcome were the housebuilders, along with travel & leisure stocks.

In this environment, the M&G Smaller Companies Fund finished the 12-month review period behind the Numis Smaller Companies ex IT Index, despite being ahead at the halfway stage. The one-year result was due to the fund's sector allocation strategy. Stock selection, on the other hand, added value.

The negative contribution from sector allocation principally reflected a zero position in mining companies, which rallied strongly in the second half of the reporting period. Conversely, in the energy sector, the fund has a significant exposure to oil services companies on the view that they should be more immune to movements in the oil price, but they suffered in the short term along with the rest of the energy market as the price of Brent crude ended the period around 20% lower in US dollar terms. Outside the resources sector, an above-index position in housebuilders and construction stocks also detracted value, as their susceptibility to any downturn in the economy meant they were adversely affected by the Brexit result. In addition, the fund had no exposure to electricity generators or telecom stocks, which benefited from their defensive qualities.

Stock selection added value across technology, financials, consumer staples, industrials and energy companies. Overall, though, technology-focused companies were the principal contributors to the fund's performance over the 12-month period. Uppermost amongst these was Accesso Technology, which won a three-year contract to supply Merlin Entertainment with its ticketing solutions software. In addition, Micro Focus, which offers business software and consultancy services, EMIS, a healthcare software developer and FDM, a provider of IT services, all delivered market-pleasing results. Other strong performers included Sanne, which provides fund administration services, and Hill & Smith, a maker of motorway crash barriers and speed limit signs.

One stock, Sepura, had a significant negative impact on the fund's performance. The company, which manufactures digital radio products, issued a surprise profit warning, causing the share price to fall sharply. This was a result of delayed contracts and an overstretched balance sheet following an acquisition, leading to a deteriorating debt position, which required a rescue rights issue.

Investment activities

Since the management of the fund changed in June 2015, we have been positioning the portfolio to flatten the overall structure and increase its exposure to higher quality companies. The fund has a substantial position in technology companies because this is where we have been finding a number of opportunities. Conversely, the fund retains below-market positions in the consumer and financial sectors, reflecting high valuations amongst consumer stocks and concern about the UK economy.

Notably, amongst the new holdings established during the period were Iomart, a cloud-computing firm, Lancashire, a speciality insurer, oil producer Cairn Energy, Ascential, an exhibitions and magazine business information company, wealth manager Rathbones and GB Group, an identity data specialist. Ascential was a new listing, having been delisted as Emap in 2008; the company has undergone a radical transformation and is being run profitably by an experienced management team. GB had a share placing with the funds being used to acquire IDScan Biometrics, which specialises in identity verification and data capture software to assist in document authentication.

Elsewhere, market weakness was used as an opportunity to add to some of the fund's newer positions. These included Sanne, a provider of fund administration services, Clinigen, a distributor of niche medicines, and housebuilder Galliford Try. In addition, we took advantage of a sell-off in Elementis after a profit warning to top up the holding, as we believe the speciality chemicals manufacturer remains a high-quality business with attractive growth opportunities.

On the sales side, Anite, Quintain Estates and Innovation exited the portfolio profitably due to takeovers. A holding in Mitchells & Butlers, on the other hand, was closed in view of the deteriorating outlook. The market consolidation was also used as an opportunity to realise profits in some of the fund's outperforming holdings, amongst which were Accesso Technology, OneSavings Bank and EMIS.

Outlook

Along with medium-sized companies, smaller companies have borne the brunt of the selling as this year's market rotation towards larger companies accelerated after the referendum, albeit by mid-July the former were well off their post-referendum lows. This could worsen, though, if the UK tips towards recession, as medium-sized and smaller companies have greater domestic and cyclical exposure. However, not all companies in these market segments are domestically focused – many have international earnings and a global client base.

The recent market volatility means that, whilst not cheap, the average UK stock has become less expensive, especially against bonds (fixed income securities). In addition, companies' overseas earnings should receive a boost from the weaker pound. On a selective basis, UK company shares are now a more attractive proposition for overseas investors. This could prompt a rise in merger and acquisition activity from foreign buyers, as evidenced by July's announcement of a £24 billion takeover of the UK microchip maker Arm by Japan's SoftBank.

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

In the meantime, although it is still early days, the Conservative Party has removed the uncertainty caused by David Cameron's resignation by swiftly appointing a new leader and prime minister. The Bank of England has provided liquidity support to the banks and eased their ability to lend. There have also been hints of an interest rate cut in August. There is evidence that business investment decisions have been paused and the new chancellor will want to reassure companies that the UK is still open for business and that the government will take steps to protect the economy. It has already eased up on austerity measures by abandoning the 2020 target for eliminating the budget deficit, and the chancellor will be working on a plan to restore confidence. This is likely to take the form of lower taxes, a reduction in planned cuts to public spending and possibly by speeding up infrastructure spending. However, any significant measures are unlikely to be announced before the autumn statement.

For long-term investors, the current volatility can present selective opportunities. In the circumstances, therefore, we remain focused on company fundamentals. Given the diverse range of companies and sectors available in the UK market, we believe there will always be scope for stockpickers to identify attractively valued shares. In addition, the recent market turbulence has presented opportunities to add to favoured holdings in the portfolio.

Garfield Kiff

Fund manager

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

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

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

Investments

Portfolio statement			
as at 30 June	2016	2016	2015 [a]
Holding	£'000	%	%
Oil & gas producers	6.038	1,84	0,92
2.900.000 Cairn Energy	6.038	1,84	
Oil equipment, services & distribution	6.204	1,89	4,08
2.016.237 Cape	3.952	1,20	
387.947 Gulf Marine Services	182	0,06	
2.769.689 Lamprell	2.070	0,63	
Chemicals	20.121	6,13	4,64
2.258.784 Elementis	4.463	1,36	
2.826.799 Synthomer	9.091	2,77	
437.783 Victrex	6.567	2,00	
Mining	0	0,00	0,35

Portfolio statement (continued)			
as at 30 June	2016	2016	2015 [a]
Holding	£'000	%	%
Construction & materials	28.459	8,67	8,04
2.640.000 Forterra	3.775	1,15	
526.761 Galliford Try	4.775	1,46	
464.855 Kier Group	4.881	1,49	
7.295.299 Low & Bonar	4.104	1,25	
1.653.339 Polypipe	4.280	1,30	
2.709.095 Tyman	6.644	2,02	
Aerospace & defence	16.680	5,08	2,77
873.063 Hill & Smith Holdings	7.425	2,26	
2.435.650 Senior	4.852	1,48	
260.704 Ultra Electronics Holdings	4.403	1,34	
Electronic & electrical equipment	0	0,00	3,86
Industrial engineering	5.407	1,65	3,80
1.030.000 Vitec Group	5.407	1,65	
Industrial transportation	7.575	2,31	3,14
543.040 James Fisher & Sons	7.575	2,31	
Support services	16.833	5,12	5,69
7.416.158 Digital Barriers [b]	2.744	0,84	
2.752.524 Equiniti	4.246	1,29	
2.387.298 Restore [b]	6.756	2,05	
3.719.247 St. Ives	3.087	0,94	
Beverages	2.840	0,86	0,86
1.800.603 Stock Spirits Group	2.840	0,86	
Food producers	7.480	2,28	2,51
911.876 Dairy Crest Group	4.760	1,45	
6.886.797 Premier Foods	2.720	0,83	
Household goods & home construction	7.052	2,15	1,45
235.000 Bovis Homes Group	1.651	0,50	
1.915.000 Mccarthy & Stone	3.217	0,98	
700.000 Redrow	2.184	0,67	
Leisure goods	2.574	0,78	0,94
590.000 Games Workshop Group	2.574	0,78	
Personal goods	0	0,00	0,50
Healthcare equipment & services	5.051	1,54	1,14
485.635 Consort Medical	5.051	1,54	
Pharmaceuticals & biotechnology	19.470	5,93	3,25
1.027.420 Clinigen Group [b]	6.185	1,88	
712.064 Dechra Pharmaceuticals	8.089	2,47	
3.225.000 Vectura Group	5.196	1,58	
Food & drug retailers	6.813	2,07	1,55
1.935.230 Booker Group	3.321	1,01	
1.890.153 Conviviality Retail [b]	3.492	1,06	
General retailers	13.226	4,03	3,86
1.890.454 DFS Furniture	3.974	1,21	
2.670.000 GAME Digital	1.869	0,57	
2.829.348 Topps Tiles	2.999	0,91	
10.500.000 Vertu Motors [b]	4.384	1,34	
Media	13.804	4,20	5,25
2.500.000 Ascential	6.253	1,90	
2.949.554 Wilmington Group	7.551	2,30	
Travel & leisure	14.560	4,43	4,42
381.437 Gaming VC Holdings [b]	2.127	0,65	
1.630.834 On the Beach Group	3.237	0,98	
2.810.811 Rank Group	5.990	1,82	
1.112.118 Restaurant Group	3.206	0,98	
Fixed line telecommunications	0	0,00	0,83
Electricity	0	0,00	1,08

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 June Holding	2016 £'000	2016 %	2015 ^[a] %
Banks	3,609	1,10	2,14
1.789.237 OneSavings Bank	3.609	1,10	
Non-life insurance	7,050	2,15	0,00
1.225.000 Lancashire Holdings	7.050	2,15	
Life insurance	2,991	0,91	0,00
2.728.767 JRP	2.991	0,91	
Real estate investment & services	9,341	2,84	5,80
1.138.973 LSL Property Services	2.728	0,83	
1.915.656 Safestore	6.613	2,01	
Real estate investment trusts	11,099	3,38	3,14
6.022.307 Hansteen Holdings	6.034	1,84	
3.450.000 LondonMetric Property	5.065	1,54	
Financial services	23,561	7,17	2,36
2.558.437 Arrow Global Group	5.021	1,53	
1.740.500 Brewin Dolphin Holdings	4.062	1,24	
1.000.000 Paragon Group of Companies	2.365	0,72	
335.000 Rathbone Brothers	5.682	1,73	
1.682.500 Sanne	6.431	1,95	
Software & computer services	59,895	18,24	15,93
688.497 accesso Technology Group ^[b]	7.677	2,34	
1.016.014 EMIS Group ^[b]	9.114	2,77	
1.035.000 FDM Group	4.399	1,34	
185.250 Fidessa Group	3.633	1,11	
203.846 First Derivatives ^[b]	3.580	1,09	
1.766.892 GB Group ^[b]	4.903	1,49	
2.750.000 iomart	7.212	2,20	
2.050.000 Market Tech Holdings Ltd	2.921	0,89	
475.048 Micro Focus International	7.377	2,25	
1.070.930 Softcat	3.428	1,04	
2.700.000 Sophos	5.651	1,72	
Technology hardware & equipment	3,559	1,08	3,32
2.645.538 Sepura	1.078	0,33	
1.951.231 Sepura (subscription shares)	0	0,00	
3.150.994 Spirent Communications	2.481	0,75	
Portfolio of investments	321,292	97,83	97,62
'AAA' rated money market funds ^[c]	7,688	2,34	1,81
7.688.000 Northern Trust Global Fund - Sterling	7.688	2,34	
Total portfolio (notes 2c & 2d on page 6)	328,980	100,17	99,43
Net other assets / (liabilities)	(568)	(0,17)	0,57
Net assets attributable to shareholders	328,412	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] AIM quoted.

^[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 30 June 2016

	£'000
Largest purchases	
Rathbone Brothers	7.490
Lancashire Holdings	7.348
Vertu Motors	6.995
iomart	6.591
St. Ives	6.240
GAME Digital	5.990
Vectura Group	5.284
Ascential	5.000
Partnership Assurance	4.895
Sophos	4.857
Other purchases	74.009
Total purchases	134.699
Largest sales	
Anite	10.974
Quintain Estates & Development	10.364
Innovation Group	9.780
e2v Technologies	6.509
accesso Technology Group	6.069
Euromoney Institutional Investor	5.852
Xaar	5.491
N Brown Group	5.278
EMIS Group	4.127
Northgate	4.018
Other sales	82.170
Total sales	150.632

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

M&G Smaller Companies 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 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 (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2016	2015	2014
	£'000	£'000	£'000
Fund net asset value (NAV)	328,412	387,410	377,057

Share class performance since launch

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



Ten-year performance

Please note that the fund's comparative index and sector is not available from inception, however 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 Smaller Companies Fund

Financial highlights

Fund performance

To give an indication of the long-term 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 01.07.15 % ^[a]	Three years 01.07.13 % p.a.	Five years 01.07.11 % p.a.	Since launch % p.a.
Sterling ^[b]				
Class 'A'	-8,6	+4,0	+7,1	+12,2 ^[c]
Class 'C'	-7,3	+5,6	+8,7	+9,4 ^[d]
Class 'I'	-7,9	+4,8	n/a	+11,1 ^[e]
Class 'R'	-8,2	+4,5	n/a	+10,8 ^[e]
Class 'X'	-8,6	+4,0	+7,1	+12,9 ^[f]

^[a] Absolute basis.

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

^[c] 27 September 1967, the end of the initial offer period of the predecessor unit trust.

^[d] 3 January 2006, 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.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
as at 30 June	2016	2015	2014	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0,07	0,04	0,06	0,06
Taxes	0,09	0,07	0,07	0,08
Costs before dilution adjustments	0,16	0,11	0,13	0,14
Dilution adjustments ^[c]	(0,01)	(0,01)	(0,06)	(0,03)
Total direct portfolio transaction costs	0,15	0,10	0,07	0,11
as at 30 June	2016	2015	2014	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,75	0,86	0,71	0,77

^[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 Smaller Companies 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 September 1967.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	288,01	264,22	237,61
Return before operating charges and after direct portfolio transaction costs	(24,39)	30,53	31,91
Operating charges	(4,81)	(4,41)	(4,47)
Return after operating charges	(29,10)	26,12	27,44
Distributions	(2,54)	(2,33)	(0,83)
Closing NAV	256,37	288,01	264,22

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,47	0,29	0,35
Dilution adjustments ^[b]	(0,03)	(0,04)	(0,17)
Total direct portfolio transaction costs	0,44	0,25	0,18

Performance and charges	%	%	%
Direct portfolio transaction costs	0,15	0,10	0,07
Operating charges	1,66	1,66	1,66
Return after operating charges	-10,11	+9,89	+11,55
Historic yield	1,00	0,81	0,24
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	102.760	125.384	135.910
Closing NAV percentage of total fund NAV (%)	31,29	32,37	36,04
Number of shares	40.083.309	43.534.192	51.438.092
Highest share price (UK p)	301,00	294,78	292,83
Lowest share price (UK p)	252,81	236,07	237,41

Sterling Class 'A' Accumulation share performance

The share class was launched on 27 September 1967.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	699,65	636,41	570,60
Return before operating charges and after direct portfolio transaction costs	(59,36)	73,89	76,59
Operating charges	(11,70)	(10,65)	(10,78)
Return after operating charges	(71,06)	63,24	65,81
Closing NAV	628,59	699,65	636,41
Retained distributions	6,18	5,63	2,06

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1,14	0,70	0,85
Dilution adjustments ^[b]	(0,07)	(0,09)	(0,41)
Total direct portfolio transaction costs	1,07	0,61	0,44

Performance and charges	%	%	%
Direct portfolio transaction costs	0,15	0,10	0,07
Operating charges	1,66	1,66	1,66
Return after operating charges	-10,16	+9,94	+11,53
Historic yield	0,99	0,81	0,26
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	31.245	41.157	43.161
Closing NAV percentage of total fund NAV (%)	9,51	10,62	11,44
Number of shares	4.970.752	5.882.510	6.782.052
Highest share price (UK p)	731,16	713,06	703,65
Lowest share price (UK p)	616,20	568,65	569,98

Sterling Class 'C' Income share performance

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

The share class was launched on 3 January 2006.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	294,30	269,86	242,68
Return before operating charges and after direct portfolio transaction costs	(24,96)	31,38	32,70
Operating charges	(0,48)	(0,44)	(0,44)
Return after operating charges	(25,44)	30,94	32,26
Distributions	(7,07)	(6,50)	(5,08)
Closing NAV	261,79	294,30	269,86

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,48	0,30	0,37
Dilution adjustments ^[b]	(0,03)	(0,04)	(0,18)
Total direct portfolio transaction costs	0,45	0,26	0,19

Performance and charges	%	%	%
Direct portfolio transaction costs	0,15	0,10	0,07
Operating charges	0,16	0,16	0,16
Return after operating charges	-8,64	+11,47	+13,29
Historic yield	2,72	2,21	1,83
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	133.037	159.587	149.078
Closing NAV percentage of total fund NAV (%)	40,51	41,19	39,54
Number of shares	50.817.659	54.225.396	55.242.692
Highest share price (UK p)	309,58	303,04	300,09
Lowest share price (UK p)	260,33	242,22	242,53

M&G Smaller Companies 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 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,562.32	1,432.92	1,288.80
Return before operating charges and after direct portfolio transaction costs	(132.15)	166.22	173.37
Operating charges	(14.33)	(13.19)	(13.34)
Return after operating charges	(146.48)	153.03	160.03
Distributions	(25.64)	(23.63)	(15.91)
Closing NAV	1,390.20	1,562.32	1,432.92

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	2.54	1.57	1.93
Dilution adjustments ^[b]	(0.16)	(0.20)	(0.93)
Total direct portfolio transaction costs	2.38	1.37	1.00

Performance and charges	%	%	%
Direct portfolio transaction costs	0.15	0.10	0.07
Operating charges	0.91	0.91	0.91
Return after operating charges	-9.38	+10.68	+12.42
Historic yield	1.86	1.51	1.05
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	37,335	36,952	29,992
Closing NAV percentage of total fund NAV (%)	11.37	9.54	7.95
Number of shares	2,685,583	2,365,202	2,093,090
Highest share price (UK p)	1,638.10	1,603.85	1,591.00
Lowest share price (UK p)	1,376.67	1,283.25	1,287.88

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	1,628.24	1,469.91	1,307.76
Return before operating charges and after direct portfolio transaction costs	(139.34)	171.97	175.97
Operating charges	(14.98)	(13.64)	(13.82)
Return after operating charges	(154.32)	158.33	162.15
Closing NAV	1,473.92	1,628.24	1,469.91
Retained distributions	26.83	24.36	16.25

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	2.66	1.63	2.00
Dilution adjustments ^[b]	(0.16)	(0.20)	(0.96)
Total direct portfolio transaction costs	2.50	1.43	1.04

Performance and charges	%	%	%
Direct portfolio transaction costs	0.15	0.10	0.07
Operating charges	0.91	0.91	0.91
Return after operating charges	-9.48	+10.77	+12.40
Historic yield	1.84	1.50	1.05
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	15,453	13,759	7,908
Closing NAV percentage of total fund NAV (%)	4.71	3.55	2.10
Number of shares	1,048,446	845,053	53,800
Highest share price (UK p)	1,707.07	1,658.52	1,621.41
Lowest share price (UK p)	1,444.80	1,316.49	1,306.80

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	156.20	143.28	128.86
Return before operating charges and after direct portfolio transaction costs	(13.20)	16.60	17.35
Operating charges	(1.82)	(1.68)	(1.71)
Return after operating charges	(15.02)	14.92	15.64
Distributions	(2.17)	(2.00)	(1.22)
Closing NAV	139.01	156.20	143.28

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.25	0.16	0.19
Dilution adjustments ^[b]	(0.02)	(0.02)	(0.09)
Total direct portfolio transaction costs	0.23	0.14	0.10

Performance and charges	%	%	%
Direct portfolio transaction costs	0.15	0.10	0.07
Operating charges	1.16	1.16	1.16
Return after operating charges	-9.62	+10.41	+12.14
Historic yield	1.57	1.28	0.79
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	318	410	374
Closing NAV percentage of total fund NAV (%)	0.10	0.11	0.10
Number of shares	229,108	262,351	261,000
Highest share price (UK p)	163.60	160.19	158.99
Lowest share price (UK p)	137.46	128.21	128.77

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	161.58	146.21	130.48
Return before operating charges and after direct portfolio transaction costs	(13.79)	17.11	17.53
Operating charges	(1.89)	(1.74)	(1.80)
Return after operating charges	(15.68)	15.37	15.73
Closing NAV	145.90	161.58	146.21
Retained distributions	2.25	2.05	1.18

Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.26	0.16	0.21
Dilution adjustments ^[b]	(0.02)	(0.02)	(0.10)
Total direct portfolio transaction costs	0.24	0.14	0.11

Performance and charges	%	%	%
Direct portfolio transaction costs	0.15	0.10	0.07
Operating charges	1.16	1.16	1.16
Return after operating charges	-9.70	+10.51	+12.06
Historic yield	1.56	1.27	0.73
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	77	53	26
Closing NAV percentage of total fund NAV (%)	0.02	0.01	0.01
Number of shares	53,089	33,000	18,000
Highest share price (UK p)	169.22	164.61	161.41
Lowest share price (UK p)	143.02	130.86	130.35

M&G Smaller Companies 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 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	287,88	264,10	237,57
Return before operating charges and after direct portfolio transaction costs	(24,28)	30,55	31,95
Operating charges	(4,81)	(4,42)	(4,51)
Return after operating charges	(29,09)	26,13	27,44
Distributions	(2,54)	(2,35)	(0,91)
Closing NAV	256,25	287,88	264,10
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,47	0,29	0,36
Dilution adjustments ^[b]	(0,03)	(0,04)	(0,17)
Total direct portfolio transaction costs	0,44	0,25	0,19
Performance and charges	%	%	%
Direct portfolio transaction costs	0,15	0,10	0,07
Operating charges	1,66	1,66	1,66
Return after operating charges	-10,11	+9,89	+11,55
Historic yield	1,00	0,82	0,28
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	5.563	6.694	6.097
Closing NAV percentage of total fund NAV (%)	1,69	1,73	1,62
Number of shares	2.170.910	2.325.276	2.308.468
Highest share price (UK p)	300,86	294,66	292,79
Lowest share price (UK p)	252,69	235,98	237,38

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2016 UK p	2015 UK p	2014 UK p
Opening NAV	691,37	628,92	563,84
Return before operating charges and after direct portfolio transaction costs	(58,66)	72,94	75,87
Operating charges	(11,56)	(10,49)	(10,79)
Return after operating charges	(70,22)	62,45	65,08
Closing NAV	621,15	691,37	628,92
Retained distributions	6,11	5,49	2,01
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1,12	0,69	0,86
Dilution adjustments ^[b]	(0,07)	(0,09)	(0,41)
Total direct portfolio transaction costs	1,05	0,60	0,45
Performance and charges	%	%	%
Direct portfolio transaction costs	0,15	0,10	0,07
Operating charges	1,66	1,66	1,66
Return after operating charges	-10,16	+9,93	+11,54
Historic yield	0,99	0,80	0,25
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	2.623	3.414	4.511
Closing NAV percentage of total fund NAV (%)	0,80	0,88	1,20
Number of shares	422.224	493.771	717.212
Highest share price (UK p)	722,52	704,62	695,34
Lowest share price (UK p)	608,91	561,92	563,24

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

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

M&G Smaller Companies Fund

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Statement of total return

for the year to 30 June	Note	2016		2015	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(40.967)		31.965
Revenue	5	9.657		9.310	
Expenses	6	(3.558)		(3.505)	
Net revenue / (expense) before taxation		6.099		5.805	
Taxation	7	(4)		(7)	
Net revenue / (expense) after taxation			6.095		5.798
Total return before distributions			(34.872)		37.763
Distributions	8		(6.095)		(5.798)
Change in net assets attributable to shareholders from investment activities			(40.967)		31.965

Statement of change in net assets attributable to shareholders

for the year to 30 June	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		387.410		377.057
Amounts received on issue of shares	15.290		12.134 ^[a]	
Amounts paid on cancellation of shares	(34.058)		(34.457) ^[a]	
		(18.768)		(22.323)
Dilution adjustments		118		142 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)		(40.967)		31.965
Retained distributions on Accumulation shares		617		566
Unclaimed distributions		2		3
Closing net assets attributable to shareholders		328.412		387.410

Balance sheet

as at 30 June	Note	2016	2015
		£'000	£'000
Assets			
Fixed assets			
Investments		328.980	385.202
Current assets			
Debtors	9	2.641	5.523
Cash and bank balances	10	1.265	1
Total assets		332.886	390.726
Liabilities			
Creditors			
Distribution payable		(2.962)	(2.681)
Other creditors	11	(1.512)	(635)
Total liabilities		(4.474)	(3.316)
Net assets attributable to shareholders		328.412	387.410

[a] Restated, please see note 1 to the financial statements.

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.

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

'Dilution adjustments' totalling £118.000 (2015: £142.000) have been reclassified from 'Amounts received on issue of shares' of £(33.000) (2015: £(3.000)) and 'Amounts paid on cancellation of shares' of £151.000 (2015: £145.000).

2 Distribution policy

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

3 Net capital gains / (losses)

for the year to 30 June	2016	2015
	£'000	£'000
Non-derivative securities	(40.964)	31.982
Currency gains / (losses)	3	(11)
Transaction charges	(6)	(6)
Net capital gains / (losses)	(40.967)	31.965

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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 164.

for the year to 30 June	2016 £'000	% of transaction	2015 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	134.231		75.650	
Commissions	104	0,08	73	0,10
Taxes	364	0,27	245	0,32
Total purchases after transaction costs	134.699		75.968	
b) Sales				
Equities				
Equities before direct portfolio transaction costs	150.779		100.532	
Commissions	(147)	0,10	(80)	0,08
Total sales after transaction costs	150.632		100.452	
c) Direct portfolio transaction costs				
Commissions paid				
Equities	251	0,07	153	0,04
Taxes paid				
Equities	364	0,09	245	0,07
Total direct portfolio transaction costs	615	0,16	398	0,11
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[b]		0,75		0,86

^[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 30 June	2016 £'000	2015 £'000
Bank interest	1	12
Interest distributions	65	50
Distributions from underlying funds: property income dividends	523	358
Dividends from equity investments: non-taxable	9.068	8.865
Underwriting commission	0	25
Total revenue	9.657	9.310

6 Expenses

for the year to 30 June	2016 £'000	2015 £'000
Payable to the ACD or associate		
Annual management charge	2.950	2.923
Administration charge	572	548
	3.522	3.471
Payable to the Depositary or associate		
Depositary's charge (including VAT)	27	27
Other expenses		
Audit fee (including VAT)	9	7
Total expenses	3.558	3.505

7 Taxation

for the year to 30 June	2016 £'000	2015 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	4	7
Deferred tax (note 7c)	0	0
Total taxation	4	7
b) Factors affecting taxation charge for the year		
Net revenue before taxation	6.099	5.805
Corporation tax at 20%	1.220	1.161
Effects of:		
Dividends from equity investments: non-taxable	(1.814)	(1.773)
Current year expenses not utilised	570	636
Withholding tax	4	7
Prior year adjustment to expenses not utilised	24	(24)
Total tax charge (note 7a)	4	7
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 £8.852.000 (2015: £8.282.000) 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 30 June	2016		2015	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
Interim	2.500	260	2.500	270
Final	2.962	357	2.681	296
Total net distributions	6.079		5.747	
Income deducted on cancellation of shares	74		94	
Income received on issue of shares	(58)		(43)	
Distributions	6.095		5.798	

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2016 £'000	2015 £'000
Amounts receivable on issues of shares	544	213
Distributions receivable	5	3
Dividends receivable	948	963
Sales awaiting settlement	1.144	4.344
Total debtors	2.641	5.523

10 Cash and bank balances

as at 30 June	2016 £'000	2015 £'000
Cash held as bank balances	1.265	1
Total cash and bank balances	1.265	1

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11 Other creditors

as at 30 June	2016 £'000	2015 £'000
Amounts payable on cancellation of shares	252	464
ACD's annual management charge payable	73	68
Administration charge payable	14	13
Expenses payable	11	90
Purchases awaiting settlement	1.162	0
Total other creditors	1.512	635

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2015: 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 below.

Share class	Opening 01.07.15	Movements		Closing 30.06.16
		Issued	Cancelled	
Sterling				
Class 'A' Income (Net)	43,534.190	791.231	(4,242.112)	40,083.309
Class 'A' Accumulation (Net)	5,882.510	30.796	(942.554)	4,970.752
Class 'C' Income (Net)	54,225.394	306.000	(3,713.735)	50,817.659
Class 'I' Income (Net)	2,365.202	384.684	(64.303)	2,685.583
Class 'I' Accumulation (Net)	845.053	324.895	(121.502)	1,048.446
Class 'R' Income (Net)	262.351	27.274	(60.517)	229.108
Class 'R' Accumulation (Net)	33.000	28.431	(8.342)	53.089
Class 'X' Income (Net)	2,325.276	123.433	(277.799)	2,170.910
Class 'X' Accumulation (Net)	493.771	23.114	(94.661)	422.224

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	n/a	1,50
Class 'C'	nil	n/a	nil
Class 'I'	1,00	n/a	0,75
Class 'R'	1,00	n/a	1,00
Class 'X'	nil	4,50 ^[a]	1,50

[a] The exit charge diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

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 to the ACD 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 46,54% (2015: 46,00%) 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.

Valuation technique	Assets 2016	Liabilities 2016	Assets 2015	Liabilities 2015
	£'000	£'000	£'000	£'000
Level 1	321.292	0	378.188	0
Level 2	7.688	0	7.014	0
Level 3	0	0	0	0
	328.980	0	385.202	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'.

M&G Smaller Companies Fund

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18 Risk management policies

General risk management policies for the fund are described in note 3 to the financial statements on pages 7 and 8.

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 £16.065.000 (2015: £18.909.000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk

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

21 Interest rate risk

The majority of the assets are non interest bearing and therefore interest rate risk is not considered significant for the fund.

22 Dividend distribution tables

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

Half yearly distribution periods				
	Start	End	Xd	Payment
Interim	01.07.15	31.12.15	04.01.16	29.02.16
Final	01.01.16	30.06.16	01.07.16	31.08.16

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 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 0,2767	p 0,7445	p 1,0212	p 1,1021
Final	0,8146	0,7068	1,5214	1,2289

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 1,6092	p 0,8672	p 2,4764	p 2,6680
Final	3,2663	0,4403	3,7066	2,9637

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 1,8898	p 1,3696	p 3,2594	p 3,1308
Final	2,5958	1,2102	3,8060	3,3652

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 4,1171	p 7,3000	p 11,4171	p 11,3898
Final	9,9836	4,2347	14,2183	12,2401

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 5,1575	p 6,7492	p 11,9067	p 11,6897
Final	11,5358	3,3887	14,9245	12,6657

Sterling Class 'R' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 0,5656	p 0,3794	p 0,9450	p 0,9578
Final	0,7373	0,4849	1,2222	1,0382

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 0,9794	p 0,0000	p 0,9794	p 0,9754
Final	1,1956	0,0775	1,2731	1,0703

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 0,5270	p 0,4945	p 1,0215	p 1,1090
Final	1,3965	0,1236	1,5201	1,2369

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2 Distribution	
	Net revenue 2016	Equalisation 2016	2016	2015
Interim	p 0,5048	p 1,9446	p 2,4494	p 2,6086
Final	1,7071	1,9550	3,6621	2,8834

M&G Smaller Companies Fund

Financial statements and notes

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M&G Investment Funds (3)

Other regulatory disclosures

Interest bearing assets

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

	% of NAV
M&G Corporate Bond Fund	99,75
M&G Dividend Fund	1,94
M&G Emerging Markets Bond Fund	99,40
M&G European Corporate Bond Fund	98,05
M&G European High Yield Bond Fund	99,26
M&G Fund of Investment Trust Shares	0,57
M&G Global Government Bond Fund	99,05
M&G Recovery Fund	0,53
M&G Smaller Companies Fund	2,73

Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the UCITS 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.

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.

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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 forward currency contracts.

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

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

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

Gilts: Fixed income securities issued by the UK government.

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

Hedging: A method of reducing unnecessary or unintended risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

Treasuries: Fixed income securities issued by the US government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

