

Annual Short Report August 2013
For the year ended 30 June 2013

M&G Corporate Bond Fund

a sub-fund of M&G Investment Funds (3)

How to contact us



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* 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.

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

† Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G Corporate Bond Fund

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 of the M&G Corporate Bond Fund

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 M&G Corporate Bond Fund is invested primarily in sterling-denominated investment grade debt. However, up to 20% of the portfolio may be invested in higher yielding corporate bonds, government debt, convertibles and preference stocks, as well as money market instruments. The fund's exposure to corporate debt may be gained through the use of derivatives.

The investment approach is very much 'top-down', therefore, the fund manager's economic outlook will determine the portfolio's duration, and in which asset classes and sectors it is concentrated.

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 and reward profile*



- The above risk number is based on the rate at which the value of the Fund has moved up and down in the past.
- This risk number is based on historical data and may not be a reliable indicator of the future risk profile of the Fund.
- The risk number shown is not guaranteed and may change over time.
- The lowest risk number does not mean risk free.

The Fund has the above risk number because of the effect of the following risks:

- The value of stockmarket 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.
- Any investment in international companies means that currency exchange rate fluctuations will have an impact on the Fund.
- There is a risk that one or more countries will exit the Euro and re-establish their own currencies. In light of this uncertainty or in the event that this does occur, there is an increased risk of asset prices fluctuating or losing value. It may also be difficult to buy and sell securities and issuers may be unable to repay the debt. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the Fund. In the event that it is not possible to carry out an accurate valuation of the Fund, dealing may be temporarily suspended.
- **Derivatives** – The Fund may use derivatives for the purposes of meeting the Fund's objective, and protecting the capital value from risk. We anticipate that the use of derivatives will not materially alter the risk profile of the Fund or increase price fluctuations, in comparison to equivalent funds that cannot invest in derivatives.

The Fund may take short positions through the use of derivatives which are not backed by equivalent physical assets. Short positions reflect an investment view that the price of the underlying asset is expected to fall in value. Accordingly, if this view is incorrect and the asset rises in value, the short position could involve greater risk due to the theoretical possibility of an unlimited rise in its value.

Some derivative transactions may be entered into directly with an eligible person or institution (a 'counterparty'). There is a risk that the counterparty may not meet its obligations or becomes insolvent which could cause the Fund to incur a loss.

- **Fixed income securities** – Changes in the interest rate will affect the value and the interest earned from the fixed income securities held by the Fund. When interest rates rise, the capital value of the Fund is likely to fall and vice versa.

The value of the Fund will fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default). A default, expected default, or downgrading will make a fixed income security harder to sell as its value and income are likely to fall. Fixed income securities that pay a higher level of income usually have a lower credit rating because of the increased risk of default. The higher the rating the less likely it is that the issuer will default, but ratings are subject to change.

- **Liquidity** – In difficult market conditions the value of certain fund investments may be less predictable than normal. In some cases this may make such investments harder to sell at the last quoted market price, or at a price considered to be fair. Such conditions could result in unpredictable changes in the value of your holding.
- The Fund invests mainly in one geographic region or country. It is therefore more vulnerable to the market sentiment of that specific geographic region or country. This type of fund can carry a higher risk and can experience larger than average price fluctuations when compared to a fund with a broader investment universe.
- * Please note that this 'Risk and reward profile' section is based on Sterling Class 'A' shares, the nominated share class.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2013, for the year ended 30 June 2013

We made a number of changes to fund positioning to reflect shifting market conditions over the course of the year under review.

We began the period with a broadly cautious positioning from a credit risk^[a] perspective, due to our concern that the eurozone crisis had begun to worsen. We reduced investments in economically-sensitive areas, such as banks, and increased our allocation to government bonds^[b]. However, as near-term threats to global financial stability seemed to ease, we started to reverse this, reducing our government bond weighting and increasing our financial bond holdings. However, we remain underweight in banks relative to our peer group and continue to be highly selective when lending to firms within the sector. During the review period, we bought bonds from banks including JPMorgan Chase, Royal Bank of Scotland and HSBC, as well as Italy's Intesa Sanpaolo and Spain's BBVA.

Our more positive view on the global outlook can also be seen in the changes we have made to our interest rate risk positioning over the past year. This can be measured by the fund's duration positioning – duration measures a portfolio's price sensitivity to fluctuations in market interest rates, with a higher duration portfolio benefiting more from a fall in rates, but suffering greater price declines when rates rise. The fund's duration remained short relative to a comparable index during the entire period under review. However, we reduced it from 7.0 years at the beginning of July 2012, to 6.4 years at the end of December 2012, and held it around this level until the market sell-off in late May and June 2013. Following the large moves in government bond yields^[c] caused by remarks from Federal Reserve Chairman Ben Bernanke in May, we slightly increased the fund's duration, to around 6.7 years.

Richard Woolnough

Fund manager

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

[a] Risk that a financial obligation will not be paid and a loss will result for the lender.

[b] Bonds are loans that are extended by investors to governments (government bonds) and companies (corporate bonds) for a specified amount of time. Bond investors pay the issuer – the government or company – an initial lump sum and receive regular interest payments in exchange. At the end of the bond's life the issuer pays back the investors' initial investment.

[c] A bond's prospective rate of return.

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.

FUND SUMMARY

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.10.13	30.11.13
Second interim	02.01.14	28.02.14
Third interim	01.04.14	31.05.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	0.2412	0.3588	1.16	1.16
Class 'I'	0.2816	0.4272	0.66	0.66
Class 'R'	0.6868	0.7012	0.91 ^[c]	n/a
Class 'X'	0.2216	0.3224	1.41	1.41
Euro	¢	¢	%	%
Class 'A'	n/a	11.3712	1.41	1.40
Class 'C'	n/a	15.5068	0.66	0.66

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Ongoing Charges Figure is the ratio of the relevant annualised total disclosable costs of each share class from the most recent reporting period to the average net asset value for that share class over the same period.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	37.19	55.82	36.00	52.65	+3.31	+6.02
Class 'I'	37.20	57.18	36.01	53.72	+3.30	+6.44
Class 'R'	99.41	102.00	n/a	n/a	n/a	n/a
Class 'X'	37.20	54.56	36.00	51.56	+3.33	+5.82
Euro	€	€	€	€	%	%
Class 'A'	n/a	15.2626	n/a	15.2546	n/a	+0.05
Class 'C'	n/a	15.7305	n/a	15.6031	n/a	+0.82

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)					
Class 'A'	2008 ^[a]	p	p	p	p
	2008 ^[a]	30.15	27.22	37.57	34.91
	2009	33.09	27.84	44.12	36.05
	2010	35.37	32.35	48.76	43.55
	2011 ^[b]	35.68	33.22	51.02	46.32
	2012	38.62	35.32	56.87	50.89
	2013 ^[c]	39.35	37.03	58.69	55.37
Class 'I'	2008 ^[a]	30.14	27.24	37.63	35.11
	2009	33.12	27.85	44.55	36.28
	2010	35.42	32.36	49.41	43.99
	2011 ^[b]	35.72	33.24	51.96	47.00
	2012	38.68	35.33	58.14	51.83
	2013 ^[c]	39.38	37.05	60.08	56.72
Class 'R'	2012 ^[d]	103.34	99.29	103.80	99.29
	2013 ^[c]	105.23	98.99	107.20	101.18
Class 'X'	2008 ^[a]	30.14	27.21	37.12	34.44
	2009	33.09	27.83	43.43	35.54
	2010	35.36	32.36	47.92	42.86
	2011 ^[b]	35.67	33.22	50.02	45.49
	2012	38.61	35.33	55.64	49.89
	2013 ^[c]	39.35	37.04	57.38	54.12
Euro (gross)					
Class 'A'	2008 ^[a]	€	€	€	€
	2008 ^[a]	n/a	n/a	11.5180	8.6047
	2009	n/a	n/a	11.4460	8.7929
	2010	n/a	n/a	13.6873	11.1372
	2011 ^[b]	n/a	n/a	14.2073	12.3152
	2012	n/a	n/a	16.5404	14.1904
	2013 ^[c]	n/a	n/a	16.3087	14.9194
Class 'C'	2008 ^[a]	n/a	n/a	11.3572	8.5742
	2009	n/a	n/a	11.4886	8.7669
	2010	n/a	n/a	13.8092	11.1827
	2011 ^[b]	n/a	n/a	14.4782	12.4837
	2012	n/a	n/a	16.9264	14.4621
	2013 ^[c]	n/a	n/a	16.7857	15.3344

^[a] On 1 September 2008 the fund's objective was changed.

^[b] The Prudential Corporate Bond Trust merged into the M&G Corporate Bond Fund immediately after 17 June 2011.

^[c] To 1 July 2013.

^[d] From 3 August 2012 (the launch date of the share class).

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Interest income per share						
	Calendar year	Interims	Distributed Final	Interim	Total	Reinvested
Sterling (net)		p	p	p	p	p
Class 'A'	2008	0.5352	0.2788	0.2860	1.1000	1.3777
	2009	0.5521	0.2860	0.3100	1.1481	1.4987
	2010	0.6160	0.3000	0.3020	1.2180	1.6424
	2011	0.5900	0.2900	0.2840	1.1640	1.6316
	2012	0.5392	0.2620	0.2520	1.0532	1.5236
	2013 ^[a]	0.4924	0.2412	-	0.7336	1.0848
Class 'I'	2008	0.5896	0.3052	0.3144	1.2092	1.5184
	2009	0.6089	0.3160	0.3420	1.2669	1.6628
	2010	0.6820	0.3320	0.3360	1.3500	1.8448
	2011	0.6600	0.3240	0.3200	1.3040	1.8488
	2012	0.6112	0.2980	0.2900	1.1992	1.7656
	2013 ^[a]	0.5665	0.2816	-	0.8481	1.2827
Class 'R'	2012	n/a	n/a	0.4416	0.4416	0.4412
	2013 ^[a]	1.4076	0.6868	-	2.0944	2.1328
Class 'X'	2008	0.5052	0.2636	0.2712	1.0400	1.2869
	2009	0.5246	0.2720	0.2940	1.0906	1.4022
	2010	0.5840	0.2820	0.2840	1.1500	1.5268
	2011	0.5560	0.2740	0.2660	1.0960	1.5072
	2012	0.5040	0.2460	0.2320	0.9820	1.3904
	2013 ^[a]	0.4532	0.2216	-	0.6748	0.9784
Euro (gross)		€	€	€	€	€
Class 'A'	2008	n/a	n/a	n/a	n/a	43.6640
	2009	n/a	n/a	n/a	n/a	44.4032
	2010	n/a	n/a	n/a	n/a	52.8624
	2011	n/a	n/a	n/a	n/a	50.6087
	2012	n/a	n/a	n/a	n/a	50.4388
	2013 ^[a]	n/a	n/a	n/a	n/a	34.9864
Class 'C'	2008	n/a	n/a	n/a	n/a	54.2380
	2009	n/a	n/a	n/a	n/a	51.5891
	2010	n/a	n/a	n/a	n/a	61.3939
	2011	n/a	n/a	n/a	n/a	60.5233
	2012	n/a	n/a	n/a	n/a	62.8895
	2013 ^[a]	n/a	n/a	n/a	n/a	45.6414

^[a] Up to final: ex-distribution date 1 July 2013;
payment date 31 August 2013.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

MAJOR HOLDINGS

The top ten holdings at the end of this year and the previous year end are shown below.

	% of sub-fund as at 30.06.13		% of sub-fund as at 30.06.12
Treasury 3.75% 2052 (£)	2.78	Treasury 3.75% 2052 (£)	2.09
Treasury 4.25% 2027 (£)	1.55	Treasury 2.5% IL 2020 (£)	1.76
Treasury 5% 2025 (£)	0.98	Treasury 1.875% IL 2022 (£)	1.20
EDF 5.5% 2041 (£)	0.92	Lloyds TSB Bank 5.125% 2025 (£)	1.17
Imperial Tobacco Finance 9% 2022 (£)	0.89	Treasury 2.5% IL 2016 (£)	1.10
Treasury 3.25% 2044 (£)	0.87	EDF 5.5% 2041 (£)	0.90
Lloyds TSB Bank 5.125% 2025 (£)	0.76	Treasury 2.5% IL 2013 (£)	0.86
EDF 6.125% 2034 (£)	0.74	Vodafone Group 8.125% 2018 (£)	0.84
AT&T 4.875% 2044 (£)	0.71	AT&T 4.875% 2044 (£)	0.83
Amgen 5.5% 2026 (£)	0.68	Deutsche Telekom 6.5% 2022 (£)	0.81

CLASSIFICATION OF INVESTMENTS

The table below shows the percentage holding per sector.

	% of sub-fund as at	
	30.06.13	30.06.12
'AAA' credit rated bonds	12.45	15.68
'AA' credit rated bonds	10.52	9.15
'A' credit rated bonds	31.03	32.86
'BBB' credit rated bonds	35.56	31.98
'BB' credit rated bonds	3.77	2.75
'B' credit rated bonds	0.56	0.69
'CCC' credit rated bonds	0.07	0.00
Bonds with no credit rating	4.60	4.39
Credit default swaps	0.03	0.03
Forward currency contracts	(0.04)	0.02
Interest rate futures contracts	0.44	(0.01)
'AAA' rated money market funds ^[a]	0.53	0.71

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

OTHER INFORMATION

The information in this report is designed to enable shareholders to make an informed judgment on the activities of the sub-fund during the period covered by the report and the results of those activities at the end of the period. For more information about the activities and performance of the sub-fund during this and the previous period, please contact the Authorised Corporate Director (ACD).

Short Reports

This Short Report is issued in accordance with the requirements of the Collective Investment Schemes sourcebook as issued (and amended) by the Financial Conduct Authority. This Short Report does not contain the Financial Statements of the M&G Corporate Bond Fund, and it is unaudited.

Investment Report and Financial Statements

A copy of the ACD's Annual Investment Report and Financial Statements for M&G Investment Funds (3), which incorporates all the sub-fund's annual investment reports and audited financial statements is available free of charge on request from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

Regulatory changes affecting sub-funds

UK law has been changed in order to segregate each sub-fund's assets and liabilities. This means that each sub-fund is responsible for meeting its own debts and its assets may not be used to pay the debts of the other sub-funds. As a result of the change in regulation sub-funds are also permitted to invest in other sub-funds in the same umbrella under specific conditions. The Prospectus has been updated to reflect these changes.

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(Authorised and regulated by the Financial Conduct Authority)

Investment Manager

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Fund manager

Richard Woolnough (an employee of M&G Limited which is an
associate of M&G Securities Limited)

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M&G is a member of the Investment Management Association and of
the Tax Incentivised Savings Association.

The Instrument of Incorporation can be inspected at our offices or at
the office of the Depositary.

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

