



M&G Investment Funds (1)

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



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M&G Investment Funds (1)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Annual Long Report and audited Financial Statements for the year ended 31 August 2017.

The audited financial statements of M&G Investment Funds (1) 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 (1) is an umbrella Open-Ended Investment Company (OEIC) and contains 12 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 6 June 2001 and was launched on 1 November 2001, following the conversion of a series of authorised unit trusts.

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

As at 31 August 2017 none of the funds held shares of the other funds within this OEIC.

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

Fund managers

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

M&G Asian Fund

Matthew Vaight

M&G European Index Tracker Fund

Nigel Booth

M&G European Select Fund

Phil Cliff

At the start of the review period John William Olsen was the fund manager.

M&G European Smaller Companies Fund

Michael Oliveros

M&G Global Basics Fund

Jamie Horvat and Randeep Somel

M&G Global Leaders Fund

Aled Smith

M&G Global Select Fund

John William Olsen

M&G Japan Fund

Johan Du Preez

M&G Japan Smaller Companies Fund

Johan Du Preez

M&G North American Dividend Fund

John Weavers

M&G North American Value Fund

Daniel White

M&G Pan European Select Fund

John William Olsen

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 Jeffs, G W MacDowall, L J Mumford, N M Donnelly*

* Appointed 9 June 2017.

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

DST Financial Services Europe Ltd*,
DST House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK
(Authorised and regulated by the Financial Conduct Authority)

* International Financial Data Services (UK) Ltd changed its name to DST Financial Services Europe Ltd on 14 August 2017.

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 (1)

Authorised Corporate Director's Report

Important information

Please note that with effect from 16 December 2016:

- We have discounted the initial charge to zero on all new investments into sterling share classes that currently carry such a charge.
- We have waived the exit charges on future withdrawals from all Sterling Class 'X' shares.

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 Depository.

Customer services and administration for UK clients:

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

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

Telephone: 0800 390 390 (UK only)

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

Customer services and administration for non-UK clients:

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

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

Telephone: +352 2605 9944

Email: csmandg@rbc.com

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

Austrian paying and information agent:

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

Belgian financial agent:

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

Danish representative agent:

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

French centralising agent:

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

German information agent:

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

Greek paying agent and distributor:

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

Irish facilities agent:

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

Italian paying agents:

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

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

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

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

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

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

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

Luxembourg paying and information agent:

Société Générale Bank & Trust S.A.,
Centre operationel, 28-32, place de la Gare, 1616 Luxembourg,
Grand Duchy of Luxembourg

Portuguese distributor:

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

Spanish representative:

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

Swedish paying agent:

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

Swiss paying agent and representative:

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

M&G Investment Funds (1)

Authorised Corporate Director's Report

Authorised Corporate Director's Responsibilities

The Authorised Corporate Director (ACD) is required to prepare annual and interim long 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 (1)

Depository's Responsibilities and Report

Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Investment Funds (1) ('the Company') for the period ended 31 August 2017

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
13 October 2017

National Westminster Bank Plc
Trustee and Depository Services

M&G Investment Funds (1)

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Investment Funds (1) ICVC

We have audited the financial statements of M&G Investment Funds (1) ICVC ('the Company') for the year ended 31 August 2017 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for the Company comprising its sub-funds, the accounting policies and risk management policies of the Company and the related notes for the sub-funds. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS102 'The Financial Reporting Standard applicable to the UK and the Republic of Ireland'.

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

Respective responsibilities of the Authorised Corporate Director and Auditor

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

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

Scope of the audit of the financial statements

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

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

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

Opinion on the financial statements

In our opinion:

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

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

In our opinion:

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

Edinburgh
13 October 2017

Ernst & Young LLP
Statutory Auditor

M&G Investment Funds (1)

Financial statements and notes

The financial statements for M&G Investment Funds (1) comprise the individual financial statements for each fund and the notes below.

Notes to the financial statements

1 Statement of compliance

The financial statements of M&G Investment Funds (1) have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

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

2 Summary of significant accounting policies

a) Basis of preparation

The financial statements of M&G Investment Funds (1) are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

b) Functional and presentational currency

The functional and presentational currency of M&G Investment Funds (1) is UK sterling. Where the functional and presentational currency of a fund is not UK sterling this is disclosed in the 'Financial statements and notes' of that fund.

c) Exchange rates

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

d) Investments - recognition and valuation

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

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

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

- Equities and debt securities which are traded on an active market are included at the quoted price, which is normally the bid price, excluding any accrued interest in respect of bonds.
 - Equities traded on the Alternative Investment Market (AIM), whose liquidity cannot be guaranteed, are included at their quoted bid price as this represents the most objective and appropriate method of valuation.
 - Collective investment schemes operated by the ACD are included at either their cancellation price for dual priced funds or their single price for single priced funds.
 - Collective investment schemes operated by another manager are included at either their bid price for dual priced funds or their single price for single priced funds.
 - Other equities and debt securities which are unquoted or not actively traded on a quoted market are included at a value estimated by the ACD using an appropriate valuation technique, excluding any accrued interest in respect of bonds.
 - Exchange traded futures and options are included at the cost of closing out the contract at the balance sheet date.
 - Over the counter equity options, credit default swaps, interest rate swaps, asset swaps and inflation swaps are included at a value provided by Markit Valuations Limited, an independent credit derivative price provider. Their fair value excludes any accrued interest in respect of derivatives where the income is revenue in nature.
 - Forward currency contracts, for share class hedging and investment, are included at a value determined by reference to current forward exchange rates for contracts with similar maturity profiles.
- ##### e) Recognition of income and expenses
- Dividends, including ordinary stock dividends, from equity investments are recognised when the security is quoted ex-dividend.
 - Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.
 - Interest income, including coupons from debt securities and bank interest is recognised on an accruals basis.
 - Underwriting commission is recognised when the issue takes place.
 - Revenue from derivatives is recognised on an accruals basis.
 - Fee rebates from investing in other collective investment schemes are recognised on an accruals basis.
 - Expenses are recognised on an accruals basis.

M&G Investment Funds (1)

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 / (losses); similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue / (expense) before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.
- Expenses relating to the purchase and sale of investments are treated as capital; all other expenses are treated as revenue.
- Rebates of charges from holdings in collective investment schemes are treated as revenue or capital in accordance with the underlying scheme's distribution policy.

g) Tax

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

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

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

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

h) Allocation of returns to share classes

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

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

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

3 Risk management policies

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

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

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

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

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 (1)

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 Asian Fund	Commitment
M&G European Index Tracker Fund	Commitment
M&G European Select Fund	Commitment
M&G European Smaller Companies Fund	Commitment
M&G Global Basics Fund	Commitment
M&G Global Leaders Fund	Commitment
M&G Global Select Fund	Commitment
M&G Japan Fund	Commitment
M&G Japan Smaller Companies Fund	Commitment
M&G North American Dividend Fund	Commitment
M&G North American Value Fund	Commitment
M&G Pan European Select Fund	Commitment

Liquidity risk

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

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

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

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

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

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 (1)

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

13 October 2017

M&G Investment Funds (1)

Financial statements and notes

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M&G Asian Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund's sole objective is long term capital growth. It invests wholly or mainly in a range of Asian (including Australasian) securities. When not wholly invested as above, the Fund may also invest in global securities with the exception of Japanese securities.

Investment approach

The M&G Asian Fund employs a bottom-up stockpicking approach to identify companies whose ability to improve their profitability or sustain high levels of profitability over time is, in the fund manager's opinion, being undervalued.

It is the core belief of the fund manager that company-specific factors, not economic growth levels, drive share prices over the long run. Consequently, investment decisions are determined by fundamental analysis of individual companies with a specific focus on their use of capital and profitability.

The fund manager applies a strict valuation discipline and looks for companies whose future profitability is, in his opinion, being under-appreciated by the market. He also assesses their corporate governance practices to find companies that are run for the benefit of their shareholders. The fund's country and sector exposure is not influenced by top-down views.

The fund invests in two specific types of company. The first comprises firms with the potential to improve their profitability, either through external change or internal change. The fund also invests in businesses with high levels of profitability where the market does not believe these levels of returns are sustainable over time; we define these as asset growth and quality companies. Investing in these different types of company is designed to create a balanced portfolio that has the potential to perform in a variety of market conditions.

The fund manager aims to hold between 50 and 70 stocks, with a typical holding period of three to five years. Taking a long-term view enables the manager to align his interest with the strategic value-creating decisions of company management. It also enables him to take advantage of valuation anomalies created by the short-term nature of emerging market investors.

Risk profile

The fund invests in shares of companies throughout Asia (excluding Japan), or companies that conduct the majority of their business activities in these countries. It is, therefore, subject to the price volatility of the Asian stockmarket and the performance of individual issuers. The fund may also be influenced by developments in the broader global stockmarket and is subject to fluctuations in currency exchange rates.

Asia (ex Japan) is a region that is regarded as having emerging economies. Hence, the fund's focus on Asia may result in greater volatility 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. Diversification across countries, industries and market capitalisation is therefore 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 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Asian Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.* Returns from the euro share classes were more modest than those of the sterling and US dollar share classes on account of the appreciation of the euro. The relative strength of the currency dampened the value of the gains in overseas assets.

The fund's returns in all share classes were behind a comparative index, the MSCI AC Asia Pacific ex Japan Index. Over the 12 months, returns for the index were 16.8%, 27.1% and 24.0% in euros, sterling and US dollars, respectively.

The fund's sole objective is long-term capital growth. Over five years and since launch, the fund met its investment objective; it delivered a positive return in all share classes, as successful stock selection helped the fund navigate several periods of turbulence in Asian stockmarkets.

Investment performance

Share prices of Asian companies performed well over the 12 months under review as investors were encouraged by a brighter economic outlook, particularly in China, and robust corporate performance. The impressive gains helped Asian stockmarkets recover from the steep declines they experienced in 2015. Asia was also one of the best performing regions over the period, delivering returns ahead of the UK and US stockmarkets and an index of global stocks.

M&G Asian Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Initially, Asian equities (company shares) fell after the election of Donald Trump as US president in November 2016. Investors worried that the prospect of protectionist policies in the US might hurt global trade and the numerous export-focused businesses in Asia. However, these fears gradually receded amid uncertainty about President Trump's ability to implement his proposed reforms.

From the end of December, there was a notable reversal in investor sentiment and company share prices climbed steadily to the end of the period. One of the major drivers was signs that China's economy appeared to be stabilising, allaying concerns about a potential slowdown in growth.

The broad upturn in economic activity around the world also supported investor confidence. In response to the US economic recovery, the US Federal Reserve raised interest rates three times during the period as part of its efforts to unwind the stimulus measures introduced after the financial crisis of 2007/8.

Towards the end of the period, share prices faltered amid increased geopolitical tension triggered by North Korea's missile launches and nuclear tests. However, investor risk appetite was not dampened for long and markets quickly regained their upward trajectory.

Against this backdrop, China's stockmarket was among the best-performing markets, buoyed by steady economic growth. South Korea's stockmarket rallied to record highs during the period, as investors welcomed the election of a new president focused on corporate governance reforms. Taiwan was another notable outperformer, driven by gains at the country's numerous technology companies.

In contrast, the smaller, more domestically focused south-east Asian nations were notable laggards, in particular the Philippines. Australia and India also underperformed.

At the sector level, information technology led the way as investors favoured hardware manufacturers and internet and social media companies with attractive growth prospects. Materials stocks also outperformed as commodities prices rose towards the end of the period. Copper and iron ore prices, in particular, rallied on expectations of strong demand from China as it embarks on infrastructure investments.

Given the upbeat mood among investors, the weakest areas were so-called 'defensive' sectors which are perceived to be resilient during challenging periods. Consumer staples, healthcare, telecoms and utilities were notable underperformers.

Over the period, so-called 'growth' stocks, which tend to deliver high revenue growth, outperformed cheap, out-of-favour 'value' stocks. (Value stocks are deemed to be trading below their true worth or long-term prospects). Value stocks had been in favour in 2016 but there was a notable rotation towards growth stocks in 2017, particularly in the technology sector. This trend created a headwind for the fund's value-oriented approach and contributed in part to the fund underperforming the index.

Having said that, one of the main reasons for the fund's underperformance in the review period was not holding any shares in Alibaba and Tencent, two Chinese internet firms. These large index constituents have rallied this year amid optimism about their considerable growth prospects – for instance, Alibaba, an e-commerce business, reported a 60% rise in revenue in the first quarter of 2017 as more Chinese consumers switch to online purchases.

Not owning these stocks hurt the fund's relative performance, but we think they are too expensive; the share prices reflect high expectations for their future growth and as value investors we are not comfortable buying stocks with such elevated valuations.

In addition to Alibaba and Tencent, a number of Chinese companies in the portfolio also detracted including HollySys Automation Technologies, a provider of control devices used in transportation and industrial plants. The company's share price retreated during the period as HollySys's railway division suffered from delays in new orders.

The holding in Lenovo, a Chinese personal computer (PC) manufacturer, also weighed on performance as the share price fell following disappointing results. Lenovo's PC business is struggling as consumers increasingly use mobile devices. Despite this challenge, the company is optimistic about the prospects of its mobile phone and data centre businesses.

Axis Bank, an Indian bank, was another notable detractor. There have been concerns about the levels of bad debts in the Indian banking system. As a result, banks have had to make extra provisions for the potential bad debts, causing profits to decline.

Elsewhere, the holding in PCCW, a Hong Kong-listed group with interests in media and telecoms, detracted. The share price fell when PCCW announced it was reducing its stake in a telecom business, which has traditionally provided a significant amount of cash for PCCW. The company plans to use the proceeds to reduce its debts and invest in other businesses.

On the other hand, a number of the fund's South Korean stocks made positive contributions as the country's stockmarket rallied on hopes that the new president would introduce governance reforms that would lead to better returns to shareholders from Korean companies.

Hana Financial, a financial group, was a leading contributor, while the holdings in technology firms SK Hynix, a semiconductor company, and Samsung Electronics, a maker of mobile phones and memory chips, added value as their share prices climbed ahead of new smartphone launches and on rising component prices.

Catcher Technology, a Taiwanese maker of mobile phone casings, was another notable contributor. The company is part of the Apple supply chain and has benefited from optimism about forthcoming Apple products.

Elsewhere, CESC, an Indian power producer, was a leading contributor, as the stock rose on good results and expectations that the company would be restructured in order to reach a valuation that reflects the full value of the group's businesses.

The share price of Fufeng, one of China's leading producers of monosodium glutamate, recovered from a period of weakness as investors welcomed signs that the food ingredients firm's profit margins were improving, helped by a new, more efficient process.

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Investment review

Investment activities

Our value-focused strategy involves taking profits from holdings that have performed well and reinvesting the proceeds in stocks that we consider to be more attractive opportunities. During the review period, we sold our shares in the aforementioned CESC, which have more than doubled in value since the beginning of 2016. Similarly, our stake in Prudential, a UK-based insurer, was sold on valuation grounds after a prolonged period of share price gains driven by rapid growth in Asia.

Hermes Microvision, a Taiwanese technology firm, left the portfolio after the business was taken over, while Krung Thai Bank, a state-owned lender in Thailand, was sold as we had concerns about increased state influence on the bank's lending and saw better opportunities elsewhere.

Technology stocks rallied during the period and we took some profits from Samsung, SK Hynix and Taiwan Semiconductor, a Taiwanese memory chip firm, after significant gains. We also reduced our holding in Fufeng, which rose over 50% during the period.

In terms of purchases we identified opportunities in a range of industries. In financials, we started a position in Cathay Financial, a Taiwanese financial conglomerate that owns the country's leading insurance company. In our view, the valuation is attractive and we believe the company should benefit from rising interest rates in the US. We also increased our holdings in existing positions, AIA, a Hong Kong-listed pan-Asian life insurance company, Axis Bank from India, and Bank Mandiri, one of Indonesia's largest banks.

Technology is another area we consider attractive and we bought shares in VTech, a Hong Kong-based supplier of electronic learning products. We believe the company is a quality business with a track record of profitability. We also added to the existing position in Lenovo, a Chinese PC manufacturer, which is working hard to turn around its struggling smartphone business.

Another notable newcomer was Li Ning, a Chinese sporting goods firm that is currently undergoing a turnaround. After an unsuccessful period of expansion and operational issues, the founder has re-joined the company to lead the new strategy.

Outlook

Asian equities have been one of the best performing asset classes this year and we believe the outlook remains promising. By our assessment, valuations remain attractive, both in relation to history and developed market equities.

We are seeing encouraging trends taking place at Asian companies: rising levels of profitability and, in the case of Korean firms, greater focus on returns to shareholders. In our view, share prices ultimately reflect corporate performance and these developments have not yet been fully recognised by investors.

As value-oriented investors, the past few months have been challenging for our approach, as investors have favoured stocks with robust growth prospects, most notably Asian technology companies. Although this contributed to our underperformance during the period, we remain confident that a valuation-focused approach can deliver superior returns over the long run.

With some growth stocks trading at elevated valuations, we believe that some investors may have been buying a 'story' or 'theme' rather than focusing on the merits of individual businesses. We expect investors, in due course, to reconsider the lofty expectations that are attached to some of the most popular companies.

At present, value stocks trade at a significant discount to growth stocks and, in our view, represent an attractive source of opportunities. We will continue to apply our selective, value-focused approach to try and identify stocks in cheaper sectors such as financials, where we believe their long-term prospects are being underappreciated by the market.

Thank you for your continued support of the fund.

Matthew Vaight
Fund manager

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

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

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

M&G Asian Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at 31 August Holding	2017 \$'000	2017 %	2016 %
United Kingdom	4,296	0.61	1.65
4,508,761 Ophir Energy	4,296	0.61	
Australia	72,131	10.31	9.84
895,980 ALS	5,628	0.81	
4,812,201 Asaleo Care	5,905	0.84	
2,008,750 Downer EDI	11,286	1.61	
1,570,865 Iluka Resources	11,739	1.68	
3,857,306 Mesoblast	4,352	0.62	
48,855 Mesoblast ADR	298	0.04	
797,139 Nufarm	5,598	0.80	
693,511 Orica	11,093	1.59	
1,944,804 QBE Insurance Group	16,022	2.29	
3,964,654 Rex Minerals	210	0.03	
China	155,117	22.18	21.57
14,866,000 AMVIG Holdings	4,446	0.64	
114,940 Baidu ADR	25,734	3.68	
14,862,000 China Lesso	10,598	1.51	
3,490,032 China Resources Power Holdings	6,396	0.91	
8,220,000 China Unicorn	11,955	1.71	
15,508,000 CNOOC	18,530	2.65	
177,350 Ctrip.com International ADR	9,341	1.34	
14,763,000 Far East Horizon	13,490	1.93	
17,468,000 Greatview Aseptic Packaging	10,715	1.53	
706,956 HollySys Automation Technologies	14,033	2.01	
15,422,000 Lenovo	8,416	1.20	
6,209,240 PICC Property & Casualty	11,649	1.67	
700,700 Vtech	9,814	1.40	
Hong Kong	98,911	14.14	14.68
3,196,200 AIA Group	24,508	3.51	
1,714,350 CK Hutchison Holdings	22,391	3.20	
13,615,000 Fufeng Group	8,561	1.22	
1,211,527 HSBC Holdings	11,759	1.68	
9,194,000 Li-Ning	6,791	0.97	
24,649,006 PCCW	13,734	1.96	
1,115,969 Standard Chartered	11,167	1.60	
India	26,811	3.83	6.12
1,807,236 Axis Bank	14,141	2.02	
1,770,542 McLeod Russel India	4,876	0.70	
2,958,806 NTPC	7,794	1.11	
Indonesia	10,180	1.46	0.82
10,368,300 Bank Mandiri	10,180	1.46	
Philippines	26,189	3.75	2.00
102,020,650 Energy Development	13,517	1.94	
15,764,000 First Pacific	12,672	1.81	
Singapore	46,964	6.72	5.95
11,665,000 CSE Global	3,218	0.46	
1,520,809 DBS Group Holdings	23,069	3.30	
26,855,990 Ezion Holdings ^[a]	0	0.00	
5,220,528 Ezion Holdings wts. 2020 ^[a]	0	0.00	
9,127,200 Japfa	3,659	0.53	
117,344 Jardine Matheson	7,711	1.10	
4,245,300 Sembcorp Industries	9,307	1.33	
South Korea	124,280	17.77	18.40
381,044 Hana Financial Group	16,541	2.37	
73,120 Hyundai Motor	9,078	1.30	
208,689 Kia Motors	6,552	0.94	
20,933 Samsung Electronic	42,976	6.14	
48,362 Samsung Fire & Marine Insurance	11,838	1.69	

Portfolio statement (continued)

as at 31 August Holding	2017 \$'000	2017 %	2016 %
South Korea (continued)			
421,660 Shinhan Financial Group	19,408	2.77	
294,017 SK hynix	17,887	2.56	
Taiwan	118,159	16.89	16.38
2,599,000 Casetek Holdings	8,612	1.23	
936,000 Catcher Technology	11,894	1.70	
5,365,000 Cathay Financial Holdings	8,746	1.25	
5,149,478 Chicony Electronics	12,900	1.84	
7,367,564 Compal Electronics	5,298	0.76	
2,389,220 Delta Electronics	13,063	1.87	
601,000 eMemory Technology	8,304	1.19	
4,731,178 Taiwan Semiconductor Manufacturing	33,863	4.84	
8,683,000 TECO Electric & Machinery	8,099	1.16	
3,970,000 Yungtlay Engineering	7,380	1.05	
Thailand	0	0.00	1.69
Portfolio of investments	683,038	97.66	99.10
Eire ('AAA' rated money market funds) ^[b]			
14,350,000 Northern Trust Global Fund - US dollar	14,350	2.05	1.24
Total portfolio (notes 2c & 2d on page 6)	697,388	99.71	100.34
Net other assets / (liabilities)	1,996	0.29	(0.34)
Net assets attributable to shareholders	699,384	100.00	100.00

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

^[a] Suspended.

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

Top ten portfolio transactions

for the year to 31 August 2017

	\$'000
Largest purchases	
Vtech	11,814
First Pacific	11,724
Sembcorp Industries	11,507
Lenovo	10,575
AIA Group	9,052
CNOOC	8,514
Cathay Financial Holdings	8,201
Li-Ning	6,671
Asaleo Care	5,495
Bank Mandiri	4,963
Other purchases	62,397
Total purchases	150,913
Largest sales	
CEC	22,339
Fufeng Group	15,427
SK hynix	13,298
Krung Thai Bank	12,036
Dongfeng Motor	11,802
Samsung Electronic	11,639
Taiwan Semiconductor Manufacturing	11,421
Hermes Microvision	9,400
Prudential	9,173
Shinhan Financial Group	9,048
Other sales	200,157
Total sales	325,740

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

M&G Asian Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

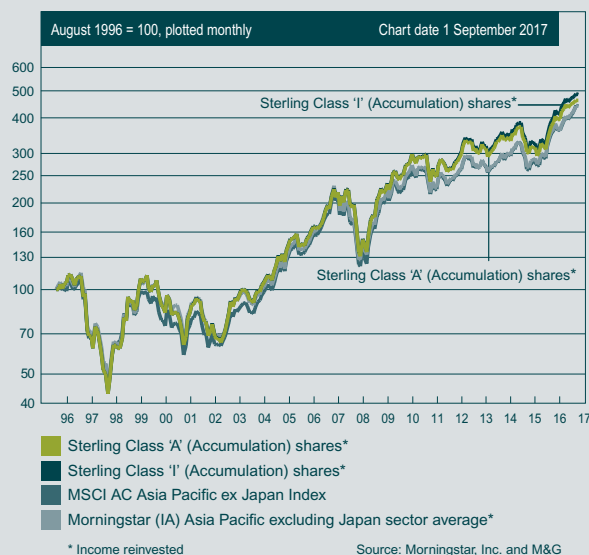
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 \$'000	2016 \$'000	2015 \$'000
Fund net asset value (NAV)	699,384	733,375	807,742

Performance since launch

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



When the fund's objective changed, the comparable index of the fund also changed, and to make a fair comparison the chart above shows performance since the fund's change of objective.

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 Asian Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+13.9	+4.4	+8.5	+9.0 ^[c]
Class 'C'	+14.8	+5.1	+9.4	+9.8 ^[c]
Sterling ^[d]				
Class 'A'	+24.7	+9.8	+11.9	+9.3 ^[e]
Class 'I'	+25.6	+10.6	+12.7	+12.3 ^[f]
Class 'R'	+25.3	+10.4	+12.5	+12.0 ^[f]
Class 'X'	+24.7	+9.8	+11.9	+16.3 ^[g]
US dollar ^[b]				
Class 'A'	+21.7	+1.0	+7.4	+12.1 ^[h]
Class 'C'	+22.6	+1.8	+8.2	+12.9 ^[h]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] Price to price with income reinvested.

^[e] 14 September 1973, the end of the initial offer period of the predecessor unit trust.

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

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

^[h] 19 December 2008, 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.

M&G Asian Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.05	0.06	0.07	0.06
Taxes	0.07	0.05	0.05	0.06
Costs before dilution adjustments	0.12	0.11	0.12	0.12
Dilution adjustments ^[c]	(0.10)	(0.07)	(0.09)	(0.09)
Total direct portfolio transaction costs	0.02	0.04	0.03	0.03
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.22	0.28	0.43	0.31

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 28 November 2001.

for the year to 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	3,449.85	3,217.85	3,396.92
Return before operating charges and after direct portfolio transaction costs	523.14	288.24	(116.53)
Operating charges	(65.94)	(56.24)	(62.54)
Return after operating charges	457.20	232.00	(179.07)
Distributions	(29.75)	(26.05)	(25.11)
Retained distributions	29.75	26.05	25.11
Closing NAV	3,907.05	3,449.85	3,217.85
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	4.71	3.48	4.39
Dilution adjustments ^[a]	(3.87)	(2.11)	(3.14)
Total direct portfolio transaction costs	0.84	1.37	1.25
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+13.25	+7.21	-5.27
Historic yield	0.76	0.73	0.77
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	144,382	142,932	181,591
Closing NAV percentage of total fund NAV (%)	20.64	19.49	22.48
Number of shares	3,116,526	3,718,496	5,003,076
Highest share price (Euro ¢)	4,097.96	3,604.36	4,180.57
Lowest share price (Euro ¢)	3,394.56	2,780.32	2,998.38

M&G Asian Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	3,808.43	3,525.90	3,694.95
Return before operating charges and after direct portfolio transaction costs	579.39	317.81	(130.71)
Operating charges	(42.10)	(35.28)	(38.34)
Return after operating charges	537.29	282.53	(169.05)
Distributions	(62.52)	(55.29)	(55.63)
Retained distributions	62.52	55.29	55.63
Closing NAV	4,345.72	3,808.43	3,525.90

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	5.31	3.83	4.76
Dilution adjustments ^[a]	(4.36)	(2.32)	(3.41)
Total direct portfolio transaction costs	0.95	1.51	1.35

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+14.11	+8.01	-4.58
Historic yield	1.44	1.41	1.57
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	207,138	125,003	148,581
Closing NAV percentage of total fund NAV (%)	29.62	17.04	18.39
Number of shares	4,019,799	2,945,870	3,735,973
Highest share price (Euro ¢)	4,547.60	3,954.75	4,567.52
Lowest share price (Euro ¢)	3,748.66	3,056.82	3,284.97

Sterling Class 'A' Income share performance

The share class was launched on 14 September 1973.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,221.09	991.98	1,143.61
Return before operating charges and after direct portfolio transaction costs	304.39	256.71	(124.83)
Operating charges	(23.94)	(18.31)	(19.72)
Return after operating charges	280.45	238.40	(144.55)
Distributions	(33.90)	(9.29)	(7.08)
Closing NAV	1,467.64	1,221.09	991.98

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.71	1.13	1.38
Dilution adjustments ^[a]	(1.40)	(0.69)	(0.99)
Total direct portfolio transaction costs	0.31	0.44	0.39

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+22.97	+24.03	-12.64
Historic yield ^[c]	2.32	0.75	0.70
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (\$'000)	184,111	187,766	188,419
Closing NAV percentage of total fund NAV (%)	26.33	25.60	23.33
Number of shares	9,742,682	11,705,434	12,343,473
Highest share price (UK p)	1,519.22	1,266.13	1,276.90
Lowest share price (UK p)	1,202.92	907.00	928.53

Sterling Class 'A' Accumulation share performance

The share class was launched on 14 September 1973.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,913.98	1,542.92	1,766.15
Return before operating charges and after direct portfolio transaction costs	476.78	399.57	(192.79)
Operating charges	(37.19)	(28.51)	(30.44)
Return after operating charges	439.59	371.06	(223.23)
Distributions	(17.92)	(14.45)	(11.21)
Retained distributions	17.92	14.45	11.21
Closing NAV	2,353.57	1,913.98	1,542.92

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.66	1.76	2.14
Dilution adjustments ^[a]	(2.19)	(1.07)	(1.53)
Total direct portfolio transaction costs	0.47	0.69	0.61

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+22.97	+24.05	-12.64
Historic yield	0.77	0.74	0.71
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	67,603	166,448	165,393
Closing NAV percentage of total fund NAV (%)	9.67	22.70	20.48
Number of shares	2,230,785	6,620,048	6,966,135
Highest share price (UK p)	2,381.27	1,969.59	1,971.99
Lowest share price (UK p)	1,885.52	1,410.94	1,433.99

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,378.34	1,119.48	1,291.96
Return before operating charges and after direct portfolio transaction costs	344.72	291.00	(142.05)
Operating charges	(15.43)	(11.81)	(12.70)
Return after operating charges	329.29	279.19	(154.75)
Distributions	(38.45)	(20.33)	(17.73)
Closing NAV	1,669.18	1,378.34	1,119.48

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.94	1.28	1.58
Dilution adjustments ^[a]	(1.60)	(0.78)	(1.13)
Total direct portfolio transaction costs	0.34	0.50	0.45

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+23.89	+24.94	-11.98
Historic yield ^[c]	2.31	1.45	1.64
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (\$'000)	15,177	11,991	9,613
Closing NAV percentage of total fund NAV (%)	2.17	1.63	1.19
Number of shares	706,150	662,245	558,016
Highest share price (UK p)	1,727.52	1,438.83	1,449.26
Lowest share price (UK p)	1,358.16	1,026.83	1,056.77

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Specific share class performance

Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,453.84	1,163.21	1,321.64
Return before operating charges and after direct portfolio transaction costs	363.68	302.90	(145.48)
Operating charges	(16.32)	(12.27)	(12.95)
Return after operating charges	347.36	290.63	(158.43)
Distributions	(25.91)	(21.10)	(18.14)
Retained distributions	25.91	21.10	18.14
Closing NAV	1,801.20	1,453.84	1,163.21

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.06	1.33	1.61
Dilution adjustments ^[a]	(1.69)	(0.81)	(1.15)
Total direct portfolio transaction costs	0.37	0.52	0.46

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+23.89	+24.99	-11.99
Historic yield	1.44	1.42	1.54
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	32,674	25,198	22,571
Closing NAV percentage of total fund NAV (%)	4.67	3.44	2.79
Number of shares	1,408,817	1,319,384	1,261,003
Highest share price (UK p)	1,822.17	1,495.59	1,482.42
Lowest share price (UK p)	1,432.58	1,067.33	1,080.94

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	137.68	111.82	129.04
Return before operating charges and after direct portfolio transaction costs	34.38	29.04	(14.16)
Operating charges	(1.93)	(1.48)	(1.58)
Return after operating charges	32.45	27.56	(15.74)
Distributions	(3.83)	(1.70)	(1.48)
Closing NAV	166.30	137.68	111.82

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.13	0.16
Dilution adjustments ^[a]	(0.16)	(0.08)	(0.11)
Total direct portfolio transaction costs	0.03	0.05	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.23	1.24	1.23
Return after operating charges	+23.57	+24.65	-12.20
Historic yield ^[c]	2.31	1.21	1.30
Effect on yield of charges offset against capital	1.15	0.00	0.00

Other information

Closing NAV (\$'000)	312	266	309
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.04
Number of shares	145,633	147,292	179,420
Highest share price (UK p)	172.13	143.39	144.53
Lowest share price (UK p)	135.65	102.46	105.29

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	143.96	115.47	131.52
Return before operating charges and after direct portfolio transaction costs	35.95	30.02	(14.44)
Operating charges	(2.00)	(1.53)	(1.61)
Return after operating charges	33.95	28.49	(16.05)
Distributions	(2.16)	(1.76)	(1.50)
Retained distributions	2.16	1.76	1.50
Closing NAV	177.91	143.96	115.47

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.20	0.13	0.16
Dilution adjustments ^[a]	(0.17)	(0.08)	(0.11)
Total direct portfolio transaction costs	0.03	0.05	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.23	1.25	1.23
Return after operating charges	+23.58	+24.67	-12.20
Historic yield	1.22	1.20	1.29
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	261	288	226
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.03
Number of shares	113,830	152,232	127,236
Highest share price (UK p)	179.99	148.11	147.30
Lowest share price (UK p)	141.84	105.83	107.31

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,219.45	990.66	1,142.31
Return before operating charges and after direct portfolio transaction costs	303.93	256.35	(124.68)
Operating charges	(23.86)	(18.29)	(19.70)
Return after operating charges	280.07	238.06	(144.38)
Distributions	(33.85)	(9.27)	(7.27)
Closing NAV	1,465.67	1,219.45	990.66

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.71	1.13	1.38
Dilution adjustments ^[a]	(1.40)	(0.69)	(0.99)
Total direct portfolio transaction costs	0.31	0.44	0.39

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+22.97	+24.03	-12.64
Historic yield ^[c]	2.32	0.75	0.72
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (\$'000)	12,753	13,792	15,901
Closing NAV percentage of total fund NAV (%)	1.82	1.88	1.97
Number of shares	675,786	860,984	1,043,106
Highest share price (UK p)	1,517.17	1,264.42	1,275.45
Lowest share price (UK p)	1,201.30	905.79	927.47

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Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,896.08	1,528.50	1,749.73
Return before operating charges and after direct portfolio transaction costs	472.61	395.80	(191.18)
Operating charges	(37.14)	(28.22)	(30.05)
Return after operating charges	435.47	367.58	(221.23)
Distributions	(17.76)	(14.36)	(8.39)
Retained distributions	17.76	14.36	8.39
Closing NAV	2,331.55	1,896.08	1,528.50
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.65	1.74	2.11
Dilution adjustments ^[a]	(2.18)	(1.06)	(1.51)
Total direct portfolio transaction costs	0.47	0.68	0.60
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+22.97	+24.05	-12.64
Historic yield	0.77	0.74	0.53
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	4,413	4,461	5,997
Closing NAV percentage of total fund NAV (%)	0.63	0.61	0.74
Number of shares	146,994	179,103	254,950
Highest share price (UK p)	2,358.99	1,951.15	1,953.58
Lowest share price (UK p)	1,867.87	1,397.74	1,420.59

US dollar Class 'A' Accumulation share performance

The share class was launched on 19 December 2008.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	2,223.02	2,099.27	2,591.22
Return before operating charges and after direct portfolio transaction costs	497.65	160.28	(450.21)
Operating charges	(41.28)	(36.53)	(41.74)
Return after operating charges	456.37	123.75	(491.95)
Distributions	(20.41)	(16.70)	(15.98)
Retained distributions	20.41	16.70	15.98
Closing NAV	2,679.39	2,223.02	2,099.27
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	2.95	2.25	2.93
Dilution adjustments ^[a]	(2.42)	(1.36)	(2.10)
Total direct portfolio transaction costs	0.53	0.89	0.83
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	1.73	1.75	1.73
Return after operating charges	+20.53	+5.89	-18.99
Historic yield	0.76	0.73	0.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	12,576	24,046	32,652
Closing NAV percentage of total fund NAV (%)	1.80	3.28	4.04
Number of shares	469,365	1,081,682	1,555,420
Highest share price (US ¢)	2,741.03	2,276.87	2,627.35
Lowest share price (US ¢)	2,154.76	1,813.63	1,993.03

US dollar Class 'C' Accumulation share performance

The share class was launched on 19 December 2008.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	2,354.12	2,206.34	2,702.89
Return before operating charges and after direct portfolio transaction costs	529.54	169.54	(471.65)
Operating charges	(24.95)	(21.76)	(24.90)
Return after operating charges	504.59	147.78	(496.55)
Distributions	(41.13)	(34.14)	(35.08)
Retained distributions	41.13	34.14	35.08
Closing NAV	2,858.71	2,354.12	2,206.34
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	3.15	2.36	3.09
Dilution adjustments ^[a]	(2.59)	(1.43)	(2.21)
Total direct portfolio transaction costs	0.56	0.93	0.88
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+21.43	+6.70	-18.37
Historic yield	1.44	1.41	1.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	17,984	31,184	36,489
Closing NAV percentage of total fund NAV (%)	2.57	4.25	4.52
Number of shares	629,106	1,324,635	1,653,818
Highest share price (US ¢)	2,922.74	2,396.19	2,745.17
Lowest share price (US ¢)	2,285.66	1,912.64	2,094.38

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		130,604		26,015
Revenue	5	20,652		22,245	
Expenses	6	(10,928)		(11,755)	
Net revenue / (expense) before taxation		9,724		10,490	
Taxation	7	(961)		(1,370)	
Net revenue / (expense) after taxation			8,763		9,120
Total return before distributions			139,367		35,135
Distributions	8		(11,008)		(7,125)
Change in net assets attributable to shareholders from investment activities			128,359		28,010

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		733,375		807,742
Amounts received on issue of shares	162,993		150,509	
Amounts paid on cancellation of shares	(332,151)		(259,110)	
		(169,158)		(108,601)
Dilution adjustments		1,352		1,037
Change in net assets attributable to shareholders from investment activities (see above)		128,359		28,010
Retained distributions on Accumulation shares		5,456		5,186
Unclaimed distributions		0		1
Closing net assets attributable to shareholders		699,384		733,375

Balance sheet

as at 31 August	Note	2017 \$'000	2016 \$'000
Assets			
Fixed assets			
Investments		697,388	735,834
Current assets			
Debtors	9	5,882	2,867
Cash and bank balances	10	5,228	3,937
Total assets		708,498	742,638
Liabilities			
Creditors			
Bank overdrafts		(89)	(2,309)
Distribution payable		(4,904)	(1,713)
Other creditors	11	(4,121)	(5,241)
Total liabilities		(9,114)	(9,263)
Net assets attributable to shareholders		699,384	733,375

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's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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 31 August	2017 \$'000	2016 \$'000
Non-derivative securities	131,106	26,494
Currency gains / (losses)	(455)	(447)
Transaction charges	(47)	(32)
Net capital gains / (losses)	130,604	26,015

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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 pages 16 and 17.

for the year to 31 August	2017 \$'000	% of transaction	2016 \$'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	150,702		125,825	
Commissions	106	0.07	172	0.14
Taxes	105	0.07	57	0.05
Equities after transaction costs	150,913		126,054	
Other transaction types				
Corporate actions	0		4,158	
Total purchases after transaction costs	150,913		130,212	
b) Sales				
Equities				
Equities before transaction costs	326,441		227,579	
Commissions	(251)	0.08	(315)	0.14
Taxes	(450)	0.14	(280)	0.12
Total sales after transaction costs	325,740		226,984	
c) Direct portfolio transaction costs				
	2017 \$'000	% of average NAV	2016 \$'000	% of average NAV
Commissions paid				
Equities	357	0.05	487	0.06
Taxes paid				
Equities	555	0.07	337	0.05
Total direct portfolio transaction costs [a]	912	0.12	824	0.11
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread [b]		0.22		0.28

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

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

5 Revenue

for the year to 31 August	2017 \$'000	2016 \$'000
Bank interest	0	1
Dividends from equity investments: non-taxable	19,403	20,197
Dividends from equity investments: taxable	140	21
Interest distributions	87	31
Stock dividends	1,022	1,995
Total revenue	20,652	22,245

6 Expenses

for the year to 31 August	2017 \$'000	2016 \$'000
Payable to the ACD or associate		
Annual management charge	9,267	9,931
Administration charge	1,106	1,148
	10,373	11,079
Payable to the Depositary or associate		
Depositary's charge (including VAT)	50	52
Other expenses		
Audit fee (including VAT)	11	11
Interest payable	4	2
Legal fees	1	1
Safe custody charge	493	479
Tax fees (including VAT)	0	136
	509	629
VAT recoverable		
Current year	0	(2)
Prior year	(4)	(3)
	(4)	(5)
Total expenses	10,928	11,755

7 Taxation

for the year to 31 August	2017 \$'000	2016 \$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	958	1,370
Capital gains tax (India)	3	0
Deferred tax (note 7c)	0	0
Total taxation	961	1,370
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	9,724	10,490
Corporation tax at 20%	1,945	2,098
Effects of:		
Dividends from equity investments: non-taxable	(3,881)	(4,039)
Stock dividends not taxable	(204)	(399)
Current year expenses not utilised	2,140	2,340
Withholding tax	958	1,370
Capital gains tax (India)	3	0
Total tax charge (note 7a)	961	1,370
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 \$18,483,000 (2016: \$16,343,000) 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.

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8 Distributions

for the year to 31 August	2017		2016	
	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Dividend distributions				
Final	4,904	5,456	1,713	5,186
Total net distributions		10,360		6,899
Income deducted on cancellation of shares		877		332
Income received on issue of shares		(229)		(106)
Distributions		11,008		7,125
Net revenue / (expense) per statement of total return		8,763		9,120
Expenses offset against capital		3,264		0
Stock dividends not distributed		(1,022)		(1,995)
Capital gains tax offset against capital		3		0
Distributions		11,008		7,125

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 August	2017 \$'000	2016 \$'000
Amounts receivable on issues of shares	77	111
Currency deals outstanding	2,390	199
Distributions receivable	15	2
Dividends receivable	1,821	2,468
Sales awaiting settlement	1,579	87
Total debtors	5,882	2,867

10 Cash and bank balances

as at 31 August	2017 \$'000	2016 \$'000
Cash held as bank balances	5,228	3,937
Total cash and bank balances	5,228	3,937

11 Other creditors

as at 31 August	2017 \$'000	2016 \$'000
ACD's annual management charge payable	395	422
Administration charge payable	49	49
Amounts payable on cancellation of shares	56	2,337
Currency deals outstanding	2,375	198
Expenses payable	104	232
Purchases awaiting settlement	1,142	2,003
Total other creditors	4,121	5,241

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	3,718,496	900,697	(1,502,667)	3,116,526
Class 'C' Accumulation	2,945,870	1,823,872	(749,943)	4,019,799
Sterling				
Class 'A' Income	11,705,434	96,042	(2,058,794)	9,742,682
Class 'A' Accumulation	6,620,048	859,536	(5,248,799)	2,230,785
Class 'I' Income	662,245	102,832	(58,927)	706,150
Class 'I' Accumulation	1,319,384	304,442	(215,009)	1,408,817
Class 'R' Income	147,292	4,796	(6,455)	145,633
Class 'R' Accumulation	152,232	0	(38,402)	113,830
Class 'X' Income	860,984	4,704	(189,902)	675,786
Class 'X' Accumulation	179,103	6,718	(38,827)	146,994
US dollar				
Class 'A' Accumulation	1,081,682	126,430	(738,747)	469,365
Class 'C' Accumulation	1,324,635	180,908	(876,437)	629,106

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

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

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

M&G Asian Fund

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15 Related parties

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

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

During the year, there were transactions in Prudential plc, a related party of M&G Securities Limited with a total value of \$9,173,000 (2016: \$3,777,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of nil (2016: \$8,028,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 39.57% (2016: 31.80%) of the fund's shares.

16 Events after the balance sheet date

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

17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2017	2017	2016	2016
	\$'000	\$'000	\$'000	\$'000
Level 1	683,038	0	726,764	0
Level 2	14,350	0	9,070	0
Level 3	0	0	0	0
	697,388	0	735,834	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 \$34,152,000 (2016: \$36,338,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by \$34,969,000 (2016: \$36,669,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017	2016
	\$'000	\$'000
Currency exposure in respect of the fund		
Australian dollar	72,045	72,599
Euro	22	(1,616)
Hong Kong dollar	217,433	215,661
Indian rupee	29,194	44,884
Indonesian rupiah	10,180	6,025
Philippine peso	13,518	14,650
Singapore dollar	39,823	31,921
Sterling	(712)	11,697
South Korean won	124,280	134,960
Taiwan dollar	120,624	123,654
Thailand baht	0	12,384
US dollar	72,977	66,556
Total	699,384	733,375

21 Interest rate risk sensitivity and exposure

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

M&G Asian Fund

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22 Credit risk exposure

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

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	29.7527	0.0000	29.7527	26.0457

Euro Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	52.9646	9.5576	62.5222	55.2863

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	23.8044	10.0943	33.8987	9.2869

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	17.6982	0.2259	17.9241	14.4520

Sterling Class 'T' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	26.3463	12.1060	38.4523	20.3343

Sterling Class 'T' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	18.6455	7.2684	25.9139	21.0950

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	1.6632	2.1714	3.8346	1.7025

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	2.1591	0.0000	2.1591	1.7582

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	30.6741	3.1789	33.8530	9.2743

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	17.7287	0.0269	17.7556	14.3616

US dollar Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	20.4050	0.0000	20.4050	16.7040

US dollar Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	37.1045	4.0236	41.1281	34.1409

M&G Asian Fund

Financial statements and notes

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M&G European Index Tracker Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund is designed to track the FTSE World Europe ex UK Index.

Investment approach

The M&G European Index Tracker Fund is a European ex UK fund that tracks the performance of the FTSE World Europe ex UK Index* using a technique called stratified sampling.

The fund will normally hold the largest 100 stocks in the index as well as a selection of the remaining smaller stocks to ensure that the fund's capitalisation and industry weights are in line with the index weightings.

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

Risk profile

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

The fund will typically hold around 350 stocks, including the largest 100 stocks in the index, as well as a selection of the remaining smaller stocks to ensure that the fund's market capitalisation and industry weights are in line with the index. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has changed during this period. From 1 September 2016 to 24 May 2017 the risk number was 6.

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Performance against objective

The M&G European Index Tracker Fund is designed to track the FTSE World Europe ex UK Index. Between 1 September 2016 (the start of the review period) and 1 September 2017, the fund's Sterling Class 'A' shares returned 25.8% while the Euro Class 'A' shares returned 15.0%.* The difference in returns between the share classes reflects the significant currency movements over the period. Meanwhile, the FTSE World Europe ex UK Index returned 27.3% in sterling terms and 17.0% in euro terms.

The fund's underperformance against the index mainly reflects technical factors and charges. The technical factors stem from M&G's pricing methodology and include a timing difference in the pricing of the fund as well as price swings.

Timing differences reflect the fact that the fund is priced at midday while the index is priced at close of day.

Price swings result from M&G's swinging single pricing policy for funds, which was adopted in October 2005. This method uses a dilution adjustment within the share price, which aims to protect existing shareholders from a dilution in performance resulting from deals placed to buy or sell shares. The method has the effect of moving the single price up or down from the mid-price – this is known as 'swinging'.

Other minor technical factors could include currency translations relating to corporate actions (such as the acquisition of a European company by a foreign firm), and time delays in the receipt of shares/cash from corporate activity.

Performance review

The M&G European Index Tracker Fund tracks the performance of the FTSE World Europe ex UK Index using a technique called 'stratified sampling', which is a two-part strategy. Firstly, the portfolio contains the largest European companies in the index in the same proportion as the index. Secondly, we hold shares in some of the remaining companies listed in the index in such a way as to reflect the characteristics of the index. In our opinion, using this method of tracking the index is the best way of minimising the fund's dealing costs and therefore represents good value for shareholders. As the fund tracks the index, its overall performance can largely be explained by market developments over the period under review.

Against a backdrop of continued support from the European Central Bank (ECB) and improving economic data, investors in European stockmarkets were upbeat for much of the 12 months under review. The mood was particularly buoyant after the election of Donald Trump in the US presidential election in November, owing to speculation that anticipated reforms would provide a boost to US economic growth and subsequently the global economy. However, confidence in the new president's ability to push through expected reforms subsequently waned somewhat.

In the spring, victory for mainstream candidates in elections in the Netherlands and France was welcomed by investors, who had feared further advances for populist parties. Investors were particularly

M&G European Index Tracker Fund

Authorised Corporate Director's Report

Investment review

Performance review (continued)

relieved by the victory of pro-Europe candidate Emmanuel Macron as president in France, as it alleviated fears that the country could join the UK in leaving the European Union (EU).

In terms of the economy, growth appears to be gathering pace. Quarter-on-quarter growth in the euro area was 0.5% in the first quarter of 2017 and 0.6% in the second quarter. Over the previous year, the region grew by 2.3%. In the most recent quarter, Germany's growth slowed slightly from 0.7% in the preceding quarter to 0.6%, while growth rates in France and Italy were unchanged at 0.5% and 0.4%, respectively. Spain's economy continued to improve, with growth of 0.9%, up from 0.8% in the first quarter.

Inflation in the eurozone briefly reached the ECB's target level of 2.0% in February 2017, before falling back sharply in May to 1.4%, in part because of volatile energy prices. The latest inflation figure was 1.5% in August, according to preliminary estimates. The ECB is currently forecasting an inflation rate of 1.5% for 2017 and 1.2% for 2018.

In other data, unemployment rates continue to improve, with the euro area standing at 9.1% in July 2017, down from 10.0% in the previous year. The Czech Republic and Germany remain the countries with the lowest levels, at 2.9% and 3.7%, respectively. At the other end of the scale, unemployment stood at 21.7% (in May) in Greece and 17.1% in Spain. Youth unemployment in the euro area is also improving, reaching 19.1% in June 2017, compared with 20.8% the year before.

Commodity prices were supported by stronger economic performance from China and the US for much of the period. Miners generally performed well, although oil stocks came under pressure at times despite the efforts of oil-producing nations to reduce the global supply glut.

Against this backdrop of ongoing economic recovery, investor confidence was buoyant and sectors that are closely associated with economic cycles, such as mining, industrial metals, banks and financials, were popular with investors. These types of industries tend to be more in demand during economic upturns. Meanwhile, more 'defensive' sectors do not generally respond much to swings in economic conditions and usually trail behind at such times. For example, food and drug retailers, tobacco and beverage stocks lagged the broader market, although most still generated positive returns.

Investment activities

In terms of sales over the review period, a number of holdings left the portfolio in connection with takeover activity. For example, Swiss pesticides and seeds group Syngenta was taken over by China's ChemChina, while Swiss pharmaceutical firm Actelion was bought by Johnson & Johnson of the US. Meanwhile, French fashion company Christian Dior was bought by the French Arnault Family Group. In connection with the deal, we received cash as well as shares in luxury firm Hermes, which the Arnault Family Group had acquired previously. Hermes was already in the portfolio and the holding has been increased as a result.

Other transactions related to large cashflows in to and, to a lesser extent, out of the fund during the period under review. Specific transactions involved Swiss food and beverage firm Nestlé, Swiss healthcare company Roche, Swiss drug company Novartis, French oil and gas business Total and French pharmaceutical concern Sanofi.

Outlook

Against a backdrop of continued advances for the European economy, investor sentiment remains broadly positive. Inflation has moved closer to the ECB's target level and the unemployment rate in the eurozone is also improving. Meanwhile, the International Monetary Fund has revised upwards growth forecasts for France, Germany, Italy and Spain. However, the continued strength of the euro may prove challenging for the region's exporters, as a strong currency makes exports relatively more expensive.

Market observers have increasingly focused on when the ECB would start to scale back its stimulus measures, which are designed to support the economy and are due to last until the end of the year. However, in the event of unforeseen weakness and should it prove necessary, the ECB has emphasised its willingness to prolong its support. Shortly after the end of the review period, the central bank announced that it was leaving its stimulus programme unchanged. ECB president Mario Draghi stated that support was still needed as inflation was still below the target level. The central bank will give a further update on plans for its support measures in the autumn.

Despite a largely encouraging picture, a number of issues have the potential to throw up unexpected developments, which could lead to periods of volatility. In terms of politics, Germany's recent election resulted in victory for the incumbent CDU/CSU bloc, although the right-wing, nationalist AfD party made significant gains. Angela Merkel is likely to remain Chancellor, while negotiations to form a new coalition government with other parties may be lengthy. Meanwhile, Austria has elections in October, while Italy is scheduled to go to the polls at some point before April 2018. Still in the sphere of politics, more than a year on from the UK's referendum on EU membership, there has been little significant progress in the Brexit negotiations, leading to uncertainty. The problem of how to tackle Greece's high debt levels also rumbles on, although a deal has been struck for the eurozone to release the latest tranche of bailout funds to the country. Meanwhile, some southern European banks are still struggling with excessive debt. Further afield, geopolitical tension in Asia may unsettle investors at times.

Notwithstanding the potential for upsets, against a backdrop of an expanding economy, prospects for European company shares, or equities, look brighter than for some time. Furthermore, valuations for European equities remain favourable.

Nigel Booth Fund manager

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

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

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

M&G European Index Tracker Fund

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Investments

Portfolio statement			
as at 31 August	2017	2017	2016
Holding	€'000	%	%
Equities	168,712	98.35	99.27
Austria	984	0.57	0.41
2,356 Andritz	107	0.06	
8,586 Erste Group	306	0.18	
4,165 OMV	199	0.12	
4,265 Raiffeisen International Bank	116	0.07	
7,256 Telekom Austria Group	58	0.03	
2,113 Vienna Insurance Group	53	0.03	
3,333 Voestalpine	145	0.08	
Belgium	4,301	2.51	2.98
886 Ackermans & van Haaren	128	0.07	
5,860 Ageas	228	0.13	
22,759 Anheuser-Busch InBev	2,276	1.33	
3,294 bpost	77	0.04	
2,190 Groupe Bruxelles Lambert	187	0.11	
8,181 KBC Group	568	0.34	
4,126 Proximus	122	0.07	
2,092 Solvay	256	0.15	
1,614 Telenet Group	91	0.05	
3,593 UCB	208	0.13	
2,565 Umicore	160	0.09	
Czech Republic	183	0.11	0.11
5,659 CEZ	90	0.06	
2,498 Komerční banka	93	0.05	
Denmark	6,504	3.79	4.11
313 AP Moller-Maersk	542	0.32	
3,291 Carlsberg	318	0.19	
2,769 Chr. Hansen Holding	200	0.12	
4,453 Coloplast	306	0.18	
20,681 Danske Bank	677	0.40	
4,412 Dong Energy	193	0.11	
5,779 DSV	343	0.20	
1,698 Genmab	332	0.19	
5,423 ISS	177	0.10	
2,052 JYSKE Bank	103	0.06	
53,502 Novo-Nordisk	2,133	1.24	
6,748 Novozymes	286	0.17	
3,176 Pandora	280	0.16	
25,611 TDC	126	0.07	
6,473 Vestas Wind Systems	488	0.28	
Eire	949	0.55	0.47
21,893 Allied Irish Banks	110	0.06	
24,491 Bank of Ireland	170	0.10	
6,687 Glanbia	106	0.06	
16,490 Irish Bank Resolution Corporation ^[a]	0	0.00	
4,382 Kerry Group	339	0.20	
4,342 Kingspan Group	140	0.08	
4,746 Ryanair Holdings	84	0.05	
Finland	3,894	2.27	2.31
3,864 Elisa	141	0.08	
12,375 Fortum	188	0.11	
3,195 Huhtamaki	105	0.06	
2,566 Kesko	116	0.07	
11,330 Kone	515	0.30	
3,674 Metso	103	0.06	
3,728 Neste	137	0.08	
171,743 Nokia	898	0.52	

Portfolio statement (continued)

as at 31 August	2017	2017	2016
Holding	€'000	%	%
Finland (continued)			
3,936 Nokian Renkaat	140	0.08	
2,809 Orion Corporation Series	111	0.07	
14,212 Sampo	632	0.37	
16,750 Stora Enso	186	0.11	
16,062 UPM-Kymmene	351	0.20	
4,654 Wartsila	271	0.16	
France	35,989	20.98	20.69 ^[b]
4,748 Accor	185	0.11	
799 Aéroports de Paris	118	0.07	
5,604 Air Liquide	578	0.34	
4,757 Air Liquide (prime de fidélité 2012)	491	0.29	
1,000 Air Liquide (prime de fidélité 2019)	103	0.06	
16,307 Airbus	1,153	0.67	
4,559 Alstom	136	0.08	
2,121 Arkema	193	0.11	
2,780 AtoS	358	0.21	
56,455 AXA	1,384	0.81	
910 BIC	91	0.05	
457 BioMérieux	94	0.05	
32,361 BNP Paribas	2,074	1.21	
31,549 Bolloré	121	0.07	
5,845 Bouygues	222	0.13	
7,654 Bureau Veritas	152	0.09	
4,657 Cap Gemini	435	0.25	
16,534 Carrefour	275	0.16	
1,937 Casino Guichard Perrachon	92	0.05	
5,301 CNP Assurances	104	0.06	
14,591 Compagnie de Saint Gobain	672	0.39	
23,860 Crédit Agricole	351	0.20	
10,000 Crédit Agricole (prime de fidélité 2012)	147	0.08	
17,102 Danone	1,129	0.66	
82 Dassault Aviation	105	0.06	
3,895 Dassault Systemes	321	0.19	
6,679 Edenred	150	0.09	
8,814 EDF	79	0.05	
3,522 EDF (prime de fidélité 2017)	31	0.02	
2,119 Eiffage	184	0.11	
23,225 ENGIE (prime de fidélité 2017)	326	0.19	
5,000 ENGIE (prime de fidélité 2019)	70	0.04	
17,798 ENGIE (prime de fidélité regd)	250	0.14	
6,133 Essilor International	648	0.38	
1,514 Eurazeo	105	0.06	
295 Eurofins Scientific	141	0.08	
5,271 Eutelsat Communications	128	0.07	
2,415 Faurecia	118	0.07	
1,367 Fonciere Des Regions REIT	113	0.07	
1,536 Gecina REIT	200	0.12	
1,734 Gemalto	79	0.05	
13,408 Groupe Eurotunnel	134	0.08	
933 Hermes International	417	0.24	
711 Iliad	154	0.09	
1,442 Imerys	106	0.06	
1,852 Ingenico	154	0.09	
1,009 Ipsen	115	0.07	
2,185 Kering	694	0.40	
6,253 Klepierre REIT	212	0.12	
2,991 LafargeHolcim (Regd.)	148	0.09	
3,517 Lagardère	94	0.05	
7,837 Legrand	464	0.27	
3,739 L'Oréal	664	0.39	
3,416 L'Oréal (prime de fidélité 2012)	607	0.35	

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Portfolio statement (continued)			
as at 31 August Holding	2017 €'000	2017 %	2016 %
France (continued)			
7,466 LVMH	1,653	0.96	
5,206 Michelin	597	0.35	
24,124 Natixis	151	0.09	
2,850 Numericable - SFR	98	0.06	
57,026 Orange	815	0.48	
1,457 Orpea	148	0.09	
6,419 Pernod Ricard	729	0.42	
12,435 Peugeot	221	0.13	
2,312 Plastic Omnium	73	0.04	
6,306 Publicis Groupe	360	0.21	
5,141 Renault	383	0.22	
8,071 Rexel	100	0.06	
8,809 Safran	721	0.42	
32,447 Sanofi	2,641	1.54	
15,776 Schneider Electric	1,069	0.62	
4,878 SCOR	172	0.10	
802 SEB SA	122	0.07	
10,467 SES FDR (formerly SES Global)	200	0.12	
21,955 Société Générale	1,040	0.61	
1,124 Sodexo	110	0.06	
1,500 Sodexo (prime de fidélité regd)	147	0.09	
18,874 STMicroelectronics	275	0.16	
9,845 Suez (formerly Suez Environnement)	156	0.09	
12,622 TechnipFMC	271	0.16	
1,734 Teleperformance	200	0.12	
3,072 Thales	286	0.17	
66,194 Total	2,867	1.67	
7,095 Valeo	400	0.23	
15,083 Veolia Environnement	296	0.17	
13,913 Vinci	1,080	0.63	
31,828 Vivendi	615	0.36	
1,393 Wendel	185	0.11	
5,712 Zodiac Aerospace	139	0.08	
Germany	33,786	19.70	19.96
5,901 adidas	1,113	0.65	
13,553 Allianz	2,444	1.42	
1,687 Axel Springer	88	0.05	
27,291 BASF	2,237	1.30	
24,666 Bayer	2,657	1.55	
10,913 Bayerische Motoren Werke	845	0.49	
159 Bayerische Motoren Werke Pref.	11	0.01	
2,994 Beiersdorf	267	0.16	
4,598 Brenntag	204	0.12	
8,233 Ceconomy (Formerly Metro)	75	0.04	
31,999 Commerzbank	335	0.19	
3,186 Continental	607	0.35	
3,398 Covestro	224	0.13	
28,906 Daimler	1,767	1.03	
62,508 Deutsche Bank	845	0.49	
5,471 Deutsche Börse	493	0.29	
6,204 Deutsche Lufthansa	129	0.08	
28,957 Deutsche Post	1,009	0.59	
94,537 Deutsche Telekom	1,435	0.84	
10,946 Deutsche Wohnen	388	0.23	
61,393 E.ON	586	0.34	
4,404 Evonik Industries	120	0.07	
1,166 Fraport	97	0.06	
12,284 Fresenius	873	0.51	

Portfolio statement (continued)

as at 31 August Holding	2017 €'000	2017 %	2016 %
Germany (continued)			
6,411 Fresenius Medical Care	501	0.29	
1,496 Fuchs Petrolub	61	0.04	
1,985 Fuchs Petrolub Pref.	93	0.05	
5,250 GEA Group	194	0.11	
1,935 Hannover Re	198	0.11	
4,374 HeidelbergCement	353	0.21	
8,343 Henkel Pref.	940	0.55	
673 Hochtief	100	0.06	
1,724 HUGO BOSS	123	0.07	
33,707 Infineon Technologies	652	0.38	
3,749 Innogy	139	0.08	
5,938 K&S	119	0.07	
2,154 Kion Group	165	0.10	
2,736 LANXESS	174	0.10	
2,020 LEG	171	0.10	
5,540 Linde	896	0.52	
1,163 MAN	110	0.06	
3,943 Merck Group	365	0.21	
5,556 Metro AG	92	0.05	
1,469 MTU Aero Engines	174	0.10	
4,181 Munich Re	726	0.42	
2,308 OSRAM	159	0.09	
4,619 Porsche Pref.	220	0.13	
6,871 ProSiebenSat.1 Media	188	0.11	
6,764 QIAGEN	182	0.11	
1,250 RTL	79	0.05	
15,404 RWE	323	0.19	
27,095 SAP	2,384	1.39	
22,671 Siemens	2,495	1.45	
3,529 Südzucker	63	0.04	
3,694 Symrise	228	0.13	
12,928 ThyssenKrupp	324	0.19	
6,185 Uniper	129	0.08	
3,362 United Internet	169	0.10	
3,408 Volkswagen	439	0.26	
2,794 Volkswagen Pref.	350	0.20	
13,805 Vonovia	491	0.29	
3,306 Wirecard	236	0.14	
3,315 Zalando	132	0.08	
Greece	553	0.32	0.14
46,473 Alpha Bank	98	0.06	
1,981 FF Group	41	0.02	
5,328 Hellenic Petroleum	41	0.03	
8,614 Hellenic Telecommunications	92	0.05	
4,669 Jumbo	65	0.04	
221,502 National Bank of Greece	75	0.04	
7,528 OPAP	70	0.04	
15,341 Piraeus Bank	71	0.04	
Hungary	487	0.28	0.20
4,809 Gedeon Richter	104	0.06	
1,666 MOL Hungarian Oil and Gas	128	0.07	
7,455 OTP Bank	255	0.15	
Italy	9,367	5.46	4.52 ^[b]
40,095 Assicurazioni Generali	604	0.35	
16,529 Atlantia	447	0.26	
13,952 Banca Mediolanum	99	0.06	
2,747 Buzzi Unicem	56	0.03	
29,340 CNH Industrial	279	0.16	
17,934 Davide Campari Milano	110	0.06	
233,295 Enel	1,182	0.69	
75,022 Eni	991	0.58	
3,283 EXOR	176	0.10	

M&G European Index Tracker Fund

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Investments

Portfolio statement (continued)			
as at 31 August Holding	2017 €'000	2017 %	2016 %
Italy (continued)			
3,906 Ferrari NV	375	0.22	
31,944 Fiat Chrysler Automobiles	406	0.24	
1,245 GEDI Gruppo Editoriale	1	0.00	
393,537 Intesa Sanpaolo	1,123	0.65	
16,758 Italgas	80	0.05	
11,185 Leonardo	159	0.09	
4,766 Luxottica Group	229	0.13	
15,616 Mediaset	48	0.03	
18,055 Mediobanca	157	0.09	
5,597 Moncler	133	0.08	
7,289 Parmalat	22	0.01	
6,389 Prysmian	169	0.10	
3,439 Recordati	123	0.07	
25,726 Saipem	78	0.05	
70,697 Snam	288	0.17	
351,774 Telecom Italia	284	0.17	
190,437 Telecom Italia (Savings shares)	123	0.07	
14,534 Tenaris	163	0.10	
39,014 Terna	192	0.11	
30,761 UBI Banca	121	0.07	
66,748 UniCredit	1,149	0.67	
Netherlands			
	12,248	7.14	7.10 ^[b]
10,379 ABN Amro GDR	244	0.14	
51,805 Aegon	249	0.15	
7,512 Akzo Nobel	578	0.34	
21,703 Altice	415	0.24	
17,679 ArcelorMittal	404	0.24	
9,602 ASML Holding	1,257	0.73	
2,838 Boskalis	78	0.04	
5,436 DSM	350	0.20	
1,015 Gemalto	46	0.03	
8,947 Heineken	786	0.46	
300 Heineken Holding	25	0.01	
116,513 ING Groep	1,735	1.01	
37,938 Koninklijke Ahold Delhaize	569	0.33	
91,589 KPN	271	0.16	
10,635 NN Group	355	0.21	
28,013 Philips	892	0.52	
3,444 Randstad Holding	168	0.10	
26,489 RELX	465	0.27	
2,954 Unibail-Rodamco REIT	630	0.37	
46,607 Unilever CVA	2,328	1.36	
2,476 Vopak	87	0.05	
8,705 Wolters Kluwer	316	0.18	
Norway			
	2,277	1.33	1.33
31,633 DnB	517	0.30	
5,778 Gjensidige Forsikring	86	0.05	
11,860 Marine Harvest	196	0.12	
36,845 Norsk Hydro	222	0.13	
21,137 Orkla	180	0.11	
2,683 Schibsted 'A'	54	0.03	
4,071 Schibsted 'B'	75	0.04	
28,127 Statoil	441	0.26	
20,615 Telenor	346	0.20	
4,768 Yara International	160	0.09	

Portfolio statement (continued)

as at 31 August Holding	2017 €'000	2017 %	2016 %
Poland			
	1,721	1.00	0.72
3,771 Alior Bank	58	0.03	
2,438 Bank Handlowy w Warszawie	40	0.02	
4,097 Bank Pekao	123	0.07	
1,063 Bank Zachodni WBK	92	0.05	
699 Budimex	38	0.02	
3,201 Ciech	47	0.03	
10,952 ENEA	39	0.02	
2,578 Grupa Azoty	42	0.03	
4,101 KGHM Polska Miedz	123	0.07	
47 LPP	96	0.06	
650 mBank	66	0.04	
41,413 Orange Polska	58	0.03	
24,932 PGE Polska Grupa	84	0.05	
55,465 PGNiG	88	0.05	
9,754 PKN Orlen	270	0.16	
25,262 PKO Bank Polski	219	0.13	
16,830 PZU	192	0.11	
50,002 TAURON Polska Energia	46	0.03	
Portugal			
	557	0.32	0.31
66,878 EDP - Energias de Portugal	215	0.13	
15,528 Galp Energia	216	0.12	
7,560 Jerónimo Martins	126	0.07	
Spain			
	12,678	7.39	6.67
18,687 Abertis Infraestructuras	317	0.18	
923 Acciona	66	0.04	
6,042 Acerinox	73	0.04	
7,413 ACS Actividades	234	0.14	
1,971 Aena	319	0.19	
12,398 Amadeus IT Holdings	641	0.37	
174,160 Banco de Sabadell	322	0.19	
473,522 Banco Santander	2,601	1.52	
33,283 Bankia	136	0.08	
18,885 Bankinter	151	0.09	
199,656 BBVA	1,491	0.87	
107,159 Caixabank	465	0.27	
22,532 Distribuidora Internacional de Alimentación (DIA)	120	0.07	
6,367 Enagas	157	0.09	
9,305 Endesa	189	0.11	
14,203 Ferrovial	271	0.16	
8,267 Gas Natural	168	0.10	
15,434 Grifols	367	0.21	
394 Grifols Pref.	7	0.00	
170,172 Iberdrola	1,164	0.68	
31,510 Inditex	1,032	0.60	
38,101 Mapfre	112	0.07	
7,136 Mediaset España Comunicación	69	0.04	
10,624 Merlin Properties REIT	123	0.07	
13,151 Red Electrica	247	0.14	
34,274 Repsol	491	0.29	
7,963 Siemens Gamesa (formerly Gamesa Technologies)	100	0.06	
129,029 Telefónica	1,168	0.68	
9,004 Zardoya Otis	77	0.04	
Sweden			
	10,625	6.20	6.32
9,466 Alfa Laval	179	0.10	
27,534 Assa Abloy	496	0.29	
29,296 Atlas Copco	965	0.56	
8,550 Boliden	253	0.15	
5,941 Electrolux	182	0.11	
87,244 Ericsson	427	0.25	
18,346 Essity Aktiebolag B	425	0.25	
3,983 Fastighets AB Bald	87	0.05	

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Investments

Portfolio statement (continued)			
as at 31 August Holding	2017 €'000	2017 %	2016 %
Sweden (continued)			
6,611 Getinge	103	0.06	
6,611 Getinge (Rights Issue)	2	0.00	
28,106 Hennes & Mauritz	595	0.35	
7,670 Hexagon	315	0.18	
13,281 Husqvarna	112	0.07	
2,961 ICA Gruppen	98	0.06	
10,718 Industrivarden	225	0.13	
1,348 International Petroleum	4	0.00	
6,148 Investment AB Latour	65	0.04	
13,424 Investor	525	0.31	
7,024 Kinnevik	177	0.10	
5,934 Lundin Petroleum	105	0.06	
94,851 Nordea Bank	1,072	0.62	
31,957 Sandvik	442	0.26	
9,983 Securitas	137	0.08	
43,106 Skandinaviska Enskilda Banken	472	0.27	
10,760 Skanska	204	0.12	
11,273 SKF	189	0.11	
17,399 Svenska Cellulosa	120	0.07	
43,500 Svenska Handelsbanken	544	0.32	
31,228 Swedbank	712	0.42	
4,881 Swedish Match	145	0.08	
12,317 Tele2	121	0.07	
80,400 Telia (formerly TeliaSonera)	320	0.19	
7,020 Trelleborg	141	0.08	
46,518 Volvo	666	0.39	
Switzerland	29,922	17.45	20.10 ^[b]
57,519 ABB (Regd.)	1,115	0.65	
4,953 Adecco (Regd.)	299	0.17	
3,076 ARYZTA	83	0.05	
1,337 Baloise Holdings (Regd.)	179	0.10	
136 Banque Cantonale Vaudoise	82	0.05	
7,713 Clariant (Regd.)	156	0.09	
15,281 Compagnie Financière Richeumont (Regd.)	1,149	0.67	
73,710 Credit Suisse Group (Regd.)	910	0.53	
1,184 Dufry	153	0.09	
208 EMS-Chemie Holdings	121	0.07	
1,069 Geberit	410	0.24	
272 Givaudan	467	0.27	
234 Helvetia Holding	112	0.07	
4,615 Idorsia	69	0.04	
6,457 Julius Baer Gruppe (Regd.)	303	0.18	
1,823 Kuehne & Nagel	275	0.16	
11,155 LafargeHolcim (Regd.)	550	0.32	
6 Lindt & Sprüngli	346	0.20	
2,169 Lonza Group (Regd.)	461	0.27	
92,561 Nestlé (Regd.)	6,601	3.85	
70,169 Novartis (Regd.)	4,921	2.87	
1,172 Pargesa Holdings (Bearer)	80	0.05	
528 Partners Group (Regd.)	288	0.17	
1,496 PSP Swiss Property	115	0.07	
21,769 Roche Holding 'Genussscheine'	4,604	2.68	
1,815 Schindler Holding	320	0.19	
160 SGS SA (Regd.)	300	0.17	
62 Sika	366	0.21	
1,530 Sonova Holding	216	0.13	

Portfolio statement (continued)

as at 31 August Holding	2017 €'000	2017 %	2016 %
Switzerland (continued)			
306 Straumann Holding	165	0.10	
633 Sulzer (Regd.)	58	0.03	
1,159 Swatch Group (Bearer)	387	0.23	
993 Swiss Life Holdings (Regd.)	299	0.17	
2,227 Swiss Prime Site	169	0.10	
9,629 Swiss Re	730	0.43	
668 Swisscom (Regd.)	282	0.16	
1,578 Temenos Group	130	0.08	
102,220 UBS Group (Regd.)	1,408	0.82	
1,391 Vifor Pharma	117	0.07	
4,480 Zurich Insurance Group	1,126	0.65	
Turkey	1,687	0.98	0.82
59,434 Akbank	150	0.09	
11,518 Anadolu Efes	60	0.03	
6,716 BIM Birlesik Magazalar	125	0.07	
83,033 Emlak Konut Gayrimenkul Yatirim REIT	59	0.03	
40,921 ENKA	53	0.03	
46,178 Eregli Demir Celik Fabrikalari	92	0.05	
3,807 Ford Otosan	44	0.03	
35,941 Hacı Omer Sabancı (formerly Sabancı Holdings)	93	0.05	
21,550 Halkbank	78	0.06	
21,376 Koç Holding	94	0.06	
36,606 Petkim	55	0.03	
6,105 Tofas Türk Otomobil Fabrik	47	0.03	
4,253 Tüpraş	121	0.07	
26,511 Türk Telekomunikasyon	46	0.03	
1,134 Turk Traktor	23	0.01	
37,706 Turkcell Iletisim	121	0.07	
24,597 Turkish Airlines	59	0.03	
61,041 Türkiye Garanti Bankası	160	0.09	
49,906 Türkiye İş Bankası	91	0.05	
46,635 Türkiye Şişe ve Cam Fabrikaları	50	0.03	
37,495 Türkiye Vakıflar Bankası	66	0.04	
Futures contracts	(115)	(0.07)	0.09
107 Euro Stoxx 50 Index Sep 2017	(115)	(0.07)	
Portfolio of investments	168,597	98.28	99.36
'AAA' rated money market funds ^[c]	453	0.26	0.00
417,000 Northern Trust Global Fund - Sterling	453	0.26	
Total portfolio (notes 2c & 2d on page 6)	169,050	98.54	99.36
Net other assets / (liabilities)	2,502	1.46	0.64
Net assets attributable to shareholders	171,552	100.00	100.00

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

[a] Delisted.

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

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

M&G European Index Tracker Fund

Authorised Corporate Director's Report

Investments

Top ten portfolio transactions

for the year to 31 August 2017

Largest purchases	€'000
Nestlé (Regd.)	2,743
Roche Holding 'Genussscheine'	1,996
Novartis (Regd.)	1,995
Total	1,273
Bayer	1,131
Siemens	1,123
Sanofi	1,080
UniCredit	1,070
Banco Santander	1,050
SAP	1,040
Other purchases	56,830
Total purchases	71,331
Largest sales	€'000
Syngenta	773
Nestlé (Regd.)	538
Actelion	509
Novartis (Regd.)	395
Unicredit	389
Roche Holding 'Genussscheine'	359
Christian Dior	334
Total	235
Sanofi	232
Bayer	225
Other sales	9,936
Total sales	13,925

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

M&G European Index Tracker Fund

Financial highlights

Fund performance

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

The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. Please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Index tracking

The tracking difference between the fund's investment return and that of the FTSE World Europe ex UK Index for the 12 month period ending 31 August 2017 was -0.14% (31 August 2016: 0.09%). The investment returns are calculated gross of fees using end of day pricing in order to be comparable with the index.

The historic tracking error of the investment return of the fund relative to the FTSE World Europe ex UK Index for the period ending 31 August 2017 was 0.17% (31 August 2016: 0.22%), which falls within the predicted tracking error range of 0.00% to 0.50%. Historic tracking error is a measure of the monthly volatility of the investment returns relative to the index over a 36 month period.

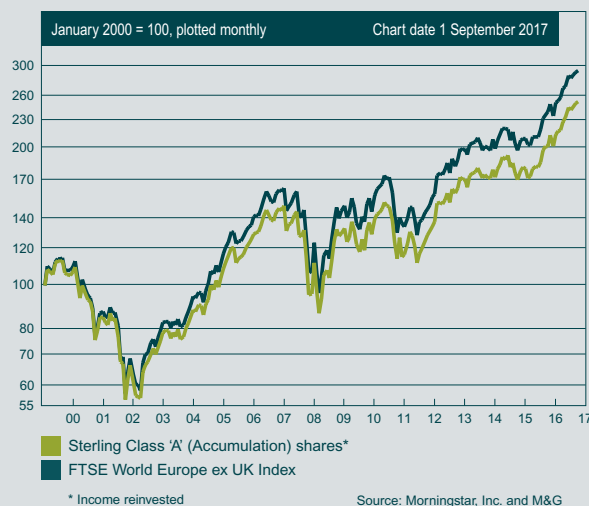
The differences are due to the fund not fully replicating the FTSE World Europe ex UK Index.

Fund level performance

Fund net asset value			
	2017	2016	2015
as at 31 August	€'000	€'000	€'000
Fund net asset value (NAV)	171,552	102,173	86,817

Performance since launch

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



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

Long-term performance by share class

	One year 01.09.16 % [a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+15.0	+7.5	+11.6	+4.5 [c]
Sterling [d]				
Class 'A'	+25.8	+13.1	+15.0	+5.4 [e]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 28 November 2001, the launch date of the share class.

[d] Price to price with income reinvested.

[e] 31 January 2000, the end of the initial offer period of the predecessor unit trust.

M&G European Index Tracker Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.02	0.01	0.01	0.01
Taxes	0.04	0.01	0.00	0.02
Costs before dilution adjustments	0.06	0.02	0.01	0.03
Dilution adjustments ^[c]	(0.06)	(0.02)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.00	0.00	0.00	0.00
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.05	0.05	0.09	0.06

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

M&G European Index Tracker Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,735.75	1,750.80	1,607.88
Return before operating charges and after direct portfolio transaction costs	266.79	(2.98)	155.33
Operating charges	(14.03)	(12.07)	(12.41)
Return after operating charges	252.76	(15.05)	142.92
Distributions	(40.03)	(39.96)	(37.17)
Retained distributions	40.03	39.96	37.17
Closing NAV	1,988.51	1,735.75	1,750.80
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.13	0.34	0.11
Dilution adjustments ^[a]	(1.13)	(0.33)	(0.11)
Total direct portfolio transaction costs	0.00	0.01	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.72	0.71	0.70
Return after operating charges	+14.56	-0.86	+8.89
Historic yield	2.00	2.26	2.19
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	85,930	25,400	3,468
Closing NAV percentage of total fund NAV (%)	50.09	24.86	3.99
Number of shares	4,321,333	1,463,365	197,878
Highest share price (Euro ¢)	2,083.57	1,894.95	2,010.19
Lowest share price (Euro ¢)	1,679.68	1,499.74	1,460.45

Sterling Class 'A' Income share performance

The share class was launched on 31 January 2000.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	71.20	63.53	64.65
Return before operating charges and after direct portfolio transaction costs	17.94	9.81	0.73
Operating charges	(0.57)	(0.46)	(0.47)
Return after operating charges	17.37	9.35	0.26
Distributions	(2.34)	(1.68)	(1.38)
Closing NAV	86.23	71.20	63.53
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.01	0.00
Dilution adjustments ^[a]	(0.05)	(0.01)	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.71	0.70	0.70
Return after operating charges	+24.40	+14.72	+0.40
Historic yield ^[c]	2.70	2.33	2.23
Effect on yield of charges offset against capital	0.65	0.00	0.00
Other information			
Closing NAV (€'000)	42,265	37,258	38,927
Closing NAV percentage of total fund NAV (%)	24.64	36.47	44.84
Number of shares	45,135,726	44,387,941	44,913,511
Highest share price (UK p)	89.63	75.31	73.26
Lowest share price (UK p)	69.44	58.38	58.65

Sterling Class 'A' Accumulation share performance

The share class was launched on 31 January 2000.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	99.60	86.83	86.48
Return before operating charges and after direct portfolio transaction costs	25.09	13.40	0.98
Operating charges	(0.79)	(0.63)	(0.63)
Return after operating charges	24.30	12.77	0.35
Distributions	(2.50)	(2.29)	(1.84)
Retained distributions	2.50	2.29	1.84
Closing NAV	123.90	99.60	86.83
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.07	0.02	0.01
Dilution adjustments ^[a]	(0.07)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.71	0.70	0.70
Return after operating charges	+24.40	+14.71	+0.40
Historic yield	2.01	2.28	2.18
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	43,357	39,515	44,422
Closing NAV percentage of total fund NAV (%)	25.27	38.67	51.17
Number of shares	32,226,481	33,648,641	37,501,344
Highest share price (UK p)	125.38	102.93	98.00
Lowest share price (UK p)	97.13	79.80	78.79

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		€'000	€'000	€'000	€'000
Income					
Net capital gains / (losses)	3		9,938		(1,966)
Revenue	5	3,565		2,725	
Expenses	6	(824)		(603)	
Net revenue / (expense) before taxation		2,741		2,122	
Taxation	7	(290)		(165)	
Net revenue / (expense) after taxation			2,451		1,957
Total return before distributions			12,389		(9)
Distributions	8		(2,717)		(1,957)
Change in net assets attributable to shareholders from investment activities			9,672		(1,966)

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		102,173		86,817
Amounts received on issue of shares	75,486		21,997	
Amounts paid on cancellation of shares	(18,504)		(6,199)	
		56,982		15,798
Dilution adjustments		120		30
Change in net assets attributable to shareholders from investment activities (see above)		9,672		(1,966)
Retained distributions on Accumulation shares		2,605		1,494
Closing net assets attributable to shareholders		171,552		102,173

Balance sheet

as at 31 August	Note	2017 €'000	2016 €'000
Assets			
Fixed assets			
Investments		169,165	101,521
Current assets			
Debtors	9	3,227	844
Cash and bank balances	10	3,467	1,442
Total assets		175,859	103,807
Liabilities			
Investment liabilities		(115)	0
Creditors			
Distribution payable		(1,145)	(878)
Other creditors	11	(3,047)	(756)
Total liabilities		(4,307)	(1,634)
Net assets attributable to shareholders		171,552	102,173

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's functional and presentational currency is euros as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

3 Net capital gains / (losses)

for the year to 31 August	2017 €'000	2016 €'000
Non-derivative securities	9,894	(2,070)
Derivative contracts	97	95
Currency gains / (losses)	(19)	19
Transaction charges	(34)	(10)
Net capital gains / (losses)	9,938	(1,966)

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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 35.

for the year to 31 August	2017 €'000	% of transaction	2016 €'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	69,947		20,021	
Commissions	15	0.02	5	0.02
Taxes	50	0.07	10	0.05
Equities after transaction costs	70,012		20,036	
Other transaction types				
Corporate actions	1,319		408	
Total purchases after transaction costs	71,331		20,444	
b) Sales				
Equities				
Equities before transaction costs	11,871		3,476	
Commissions	(3)	0.03	(2)	0.05
Equities after transaction costs	11,868		3,474	
Other transaction types				
Corporate actions	2,057		425	
Total sales after transaction costs	13,925		3,899	
c) Direct portfolio transaction costs				
	2017 €'000	% of average NAV	2016 €'000	% of average NAV
Commissions paid				
Equities	18	0.02	7	0.01
Taxes paid				
Equities	50	0.04	10	0.01
Total direct portfolio transaction costs [a]	68	0.06	17	0.02
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread [b]		0.05		0.05

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

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

5 Revenue

for the year to 31 August	2017 €'000	2016 €'000
Bank interest	15	0
Derivative revenue	(1)	0
Dividends from equity investments: non-taxable	3,202	2,553
Dividends from equity investments: taxable	67	(21)
Stock dividends	282	193
Total revenue	3,565	2,725

6 Expenses

for the year to 31 August	2017 €'000	2016 €'000
for the year to 31 August		
Payable to the ACD or associate		
Annual management charge	595	436
Administration charge	178	131
	773	567
Payable to the Depositary or associate		
Depositary's charge (including VAT)	11	8
Other expenses		
Audit fee (including VAT)	9	10
Interest payable	10	3
Legal fees	0	1
Safe custody charge	21	15
	40	29
VAT recoverable		
Prior year	0	(1)
Total expenses	824	603

7 Taxation

for the year to 31 August	2017 €'000	2016 €'000
for the year to 31 August		
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	290	165
Deferred tax (note 7c)	0	0
Total taxation	290	165
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	2,741	2,122
Corporation tax at 20%	548	424
Effects of:		
Dividends from equity investments: non-taxable	(640)	(510)
Stock dividends not taxable	(56)	(39)
Current year expenses not utilised	149	125
Withholding tax	290	165
Overseas tax expensed	(1)	0
Total tax charge (note 7a)	290	165
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 €861,000 (2016: €712,000) 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 31 August	2017		2016	
	Inc [a] €'000	Acc [b] €'000	Inc [a] €'000	Acc [b] €'000
Dividend distributions				
Final	1,145	2,605	878	1,494
Total net distributions		3,750		2,372
Income deducted on cancellation of shares		58		69
Income received on issue of shares		(1,091)		(484)
Distributions		2,717		1,957
Net revenue / (expense) per statement of total return				
		2,451		1,957
Expenses offset against capital				
		266		0
Distributions		2,717		1,957

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Notes to the financial statements

9 Debtors

as at 31 August	2017 €'000	2016 €'000
Amounts receivable on issues of shares	1,968	35
Currency deals outstanding	542	118
Dividends receivable	41	24
Interest recoverable on overseas tax previously withheld at source	0	9
Withholding tax recoverable	676	658
Total debtors	3,227	844

10 Cash and bank balances

as at 31 August	2017 €'000	2016 €'000
Amounts held at futures clearing houses and collateral manager	450	95
Cash held as bank balances	3,017	1,347
Total cash and bank balances	3,467	1,442

11 Other creditors

as at 31 August	2017 €'000	2016 €'000
ACD's annual management charge payable	40	23
Administration charge payable	12	7
Amounts payable on cancellation of shares	0	118
Corporation tax payable	470	470
Currency deals outstanding	542	117
Expenses payable	28	21
Purchases awaiting settlement	1,955	0
Total other creditors	3,047	756

12 Contingent assets, liabilities and outstanding commitments

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

The fund has not recognised a contingent asset of €756,379. As a result of the European Court of Justice (ECJ) rulings in November 2012 and High Court judgements in October 2013 in relation to Prudential Assurance Co Ltd v Revenue & Customs Commissioners, the fund can potentially recover UK corporation tax suffered on overseas dividends received before July 2009 (overseas dividends received post 2009 are not taxable). Full recovery of this asset is not certain, however, an estimated accrual is included within the daily price of the fund's shares. The contingent asset will be reflected in the financial statements when receipt of the reclaims becomes virtually certain.

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	1,463,365	3,669,068	(811,100)	4,321,333
Sterling				
Class 'A' Income	44,387,941	2,485,844	(1,738,059)	45,135,726
Class 'A' Accumulation	33,648,641	500,935	(1,923,095)	32,226,481

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'	nil	n/a	0.50
Sterling			
Class 'A'	nil	n/a	0.50

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 0.75% (2016: 0.00%) of the fund's shares.

16 Events after the balance sheet date

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

M&G European Index Tracker Fund

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17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets 2017 €'000	Liabilities 2017 €'000	Assets 2016 €'000	Liabilities 2016 €'000
Level 1	168,712	(115)	101,521	0
Level 2	453	0	0	0
Level 3	0	0	0	0
	169,165	(115)	101,521	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 €8,430,000 (2016: €5,076,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by €8,578,000 (2016: €5,109,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017 €'000	2016 €'000
Currency exposure in respect of the fund		
Czech koruna	183	116
Danish krone	6,538	4,207
Euro	118,450	67,654
Hungarian forint	487	202
Norwegian krone	2,285	1,369
Polish zloty	1,722	738
Sterling	(550)	(20)
Swedish krona	10,625	6,458
Swiss franc	30,221	20,615
Turkish lira	1,586	830
US dollar	5	4
Total	171,552	102,173

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

The table below sets out the counterparty exposure and collateral held to mitigate credit risk.

as at 31 August 2017	Futures €'000	Collateral held as cash €'000	Net exposure €'000
Bank of America Merrill Lynch	(115)	450	335
Total	(115)	450	335

as at 31 August 2016	Futures €'000	Collateral held as cash €'000	Net exposure €'000
Bank of America Merrill Lynch	97	95	192
Total	97	95	192

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.

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23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	€	€	€	€
Final	11.7444	28.2891	40.0335	39.9597

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	p	p	p	p
Final	1.2352	1.1012	2.3364	1.6775

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	p	p	p	p
Final	1.2593	1.2406	2.4999	2.2929

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M&G European Select Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund's prime objective is long term capital growth. It invests wholly or predominantly in a diversified portfolio of securities of European (excluding United Kingdom) issuers. When not wholly invested as above, it may also invest in companies which are listed or registered outside Europe but trade within it. Income is of secondary importance when investments are selected. The Fund may at any time be concentrated in a limited number of securities.

Investment approach

The M&G European Select Fund invests in the shares of European (ex UK) companies with sustainable competitive advantages, which have the opportunity to reinvest their capital at high rates of return. Central to the fund manager's approach is the capital allocation strategy of the businesses in which he invests. In light of this, the manager focuses on companies that recognise the importance of growing dividends, which in turn instils capital discipline and ensures that the highest returning growth projects are prioritised.

The fund manager believes that, as a result of his focus on capital discipline and dividends, the dividend growth of the fund's holdings is likely to be higher than that of a broad index of European (ex UK) equities over the long term. He expects this premium dividend growth to drive the fund's long-term capital growth, as well as growth in the fund's income distributions. The fund will usually hold between 25 and 35 stocks, with a long-term investment view of three years or more.

Risk profile

The fund invests in the shares of companies listed in Europe and is, therefore, subject to the price volatility of the European stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on businesses displaying capital discipline and these stocks could potentially experience a degree of illiquidity in times of market distress. The fund is a concentrated portfolio of between 25-35 holdings, but 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 companies, which can be more unpredictable and difficult to buy and sell. Diversification across countries, 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 changed during this period. From 1 September 2016 to 27 April 2017 the risk number was 6.

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G European Select Fund delivered positive returns across all of its share classes.* All share classes finished behind a comparable index, the FTSE World Europe ex UK Index. Over the 12 months, returns from the index were 27.3% and 17.0% in sterling and euros, respectively.

Over five years and since launch, the fund has delivered positive capital growth, thus meeting its investment objective.

Investment performance

The period under review was eventful for European stockmarkets. As we started the period, investors had broadly switched their attention to elections in the US, having previously been focused on the aftermath of the UK referendum on EU membership. Markets were turbulent in the run-up to November's Presidential contest, but then rose steadily following the surprise election of Donald Trump, as the potential for reduced taxes and regulation, as well as a prospective boost to spending on infrastructure, cheered US investors – this positive mood was reflected in Europe. Following a lull as we entered the new year, markets then maintained their upward trajectory for much of the period under review, with political and economic developments in Europe helping to drive sentiment on the continent.

In political terms, the tide of populism – highlighted in 2016 by the 'Brexit' decision in the UK and Donald Trump's presidency in the US – was stemmed in Europe, with elections in Holland and France failing to elect candidates from the extremes of the political spectrum; this had a positive effect on markets. Investors were also enlivened by strong business sentiment and accelerating economic activity, which helped to drive earnings. The euro's value, as well, was boosted by Emmanuel Macron's clear-cut win in the French presidential election, while strong economic data from across the region helped to extend gains. With a sharp fall in eurozone unemployment and business

M&G European Select Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

confidence surveys continuing their positive trend, Europe has appeared to be in the midst of a broad-based upturn, helping to further improve investor confidence. The currency strength, however, had ramifications for euro denominated investments – while stockmarkets continued to deliver positive returns in sterling and US dollar terms, returns in euro flattened as we moved through the end of the period under review, reflecting the euro's relative rise in value.

Against this background, the financial, industrials and technology sectors delivered strong performance, as did the more defensive (that is, with relatively predictable and stable earnings regardless of the state of the overall economy) utilities sector. Other more defensive sectors though, including healthcare and telecommunications, lagged the wider market, as did consumer related stocks. The fund's relative underperformance was largely driven by stock selection within the consumer goods sector, while selection within healthcare also weighed on returns. On the plus side, stockpicking within industrials and financials was supportive.

At an individual stock level, the fund's largest detractor for the period under review was branded jewellery creator Pandora. Having performed well for some time, the company's shares slid after it forecast for slower revenue growth than anticipated, as well as squeezed margins in light of higher commodity prices. The company's slower revenue growth largely resulted from its operations in the US, where the retail environment has been particularly challenging. As we neared the end of the review period, though, Pandora reported an increase in US like-for-like sales, driven by more effective advertising and promotions.

Shares in 'fast fashion' retailer Hennes & Mauritz, meanwhile, also declined, after the company reported a drop in net profits, largely due to higher purchasing costs from a strengthening US dollar. It also had to discount some of its lines in light of lower-than-expected sales, amid difficult conditions for retailers; investors were disappointed.

Other laggards included Norwegian oil & gas producer Statoil, whose performance suffered along with other energy companies in light of weakness in the oil price, and German flavours and fragrances manufacturer Symrise. Symrise is a specialist chemicals company, globally supplying fragrances, flavourings and ingredients for cosmetics and nutritional supplements. Its products are widely used by food manufacturers and pharmaceutical companies. Its share price declined as investors downgraded earnings estimates on fears that the company would suffer from increased cost pressures, as commodity prices have firmed. (The shares of both Statoil and Symrise were sold following a change in fund management in July 2017 – please see the 'investment activities' section of this report for further details).

On the upside, one of the fund's largest contributors was Dutch financial institution ING, which benefited from positive sentiment in the European financial sector, buoyed by the potential for rising interest rates. The company has also delivered ongoing operational success, including good retail expansion into online banking, and this has pleased investors. Elsewhere within financials, Italian global banking and financial services company UniCredit also delivered strong performance.

Danish transport and logistics company DSV buoyed returns as well. The company reported very strong results, with each of its divisions – Air & Sea, Road, and Solutions – significantly outpacing market growth. The positive developments were largely the result of the continued successful integration of US-based freight forwarding business UTi, acquired by DSV in January 2016.

Other supportive holdings included airline industry IT outsourcing business Amadeus IT Holdings and Aeroplane engine manufacturer and aftermarket service provider MTU Aero Engines. During the review period, Amadeus IT Holdings published strong numbers, with solid year-on-year growth in profits and revenues. This was driven by the company's distribution and IT solutions businesses, as well as through successful acquisitions, including Navitaire – a provider for the low-cost segment of the airline industry – acquired last year. Amadeus' shares bounced back from a sharp decline at the end of May, which followed two European airlines announcing new fees on tickets purchased through global distribution systems that facilitate booking transactions between travel services and agencies.

MTU Aero Engines, meanwhile, announced expectations for its highly profitable spare parts and maintenance business to generate increasing revenues into 2018, with this change in mix resulting in rising profit margins. The company also said it expected its commercial maintenance segment to lead in terms of growth rates through 2017; investors were pleased.

Investment activities

Portfolio activity over the review period was significantly higher than usual, reflecting a reorganisation of the fund as a result of a change in management at the beginning of July 2017. Many of the fund's holdings were replaced at this point and the portfolio realigned to better fit the new investment philosophy. The majority of this realignment was completed by the financial year end, with the associated costs entirely borne by M&G.

We look for companies with sustainable competitive advantages, which have the opportunity to reinvest their capital at high rates of return. Central to our approach is the capital allocation strategy of the businesses in which we invest. In light of this, we focus on companies that recognise the importance of growing dividends, which in turn instills capital discipline and ensures that the highest returning growth projects are prioritised.

We expect that, as a result of our focus on growing dividends, the dividend growth of the fund's holdings is likely to be higher than that of a broad index of European (ex UK) equities over the long term. We expect this premium dividend growth to drive the fund's long-term capital growth and growth in the fund's income distributions. As previously, the fund will usually hold between 25 and 35 stocks, with a long-term investment view of three years or more.

As part of the fund's realignment, we sold 12 holdings that we didn't feel fit with our investment philosophy, while adding 17 new holdings to the portfolio. As a result, the fund increased its relative positioning in the financial sector, while decreasing its positioning in basic materials – other weightings in the portfolio were adjusted marginally. It is worth noting that these changes in allocation were not based on a view of these particular sectors, but rather were the result of fundamental, selective stockpicking.

As an example of one of our new holdings, we bought shares in Erste Group. The Austrian bank with leading market positions in central and eastern Europe is benefiting from loan growth, high net interest

M&G European Select Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

margin and improving asset quality. The balance sheet is supportive of a rising dividend and the valuation is undemanding on a significant discount to its peers.

Another new holding was professional services company Bureau Veritas. The business of testing, inspection and certification, in which the company specialises, has benefited from structural growth driven by regulation, outsourcing, the need for independent verification and increased complexity, and its high barriers to entry have resulted in good pricing power. Bureau Veritas produces a lot of cash, and we think that market expectations for the French company look too low given the potential for bolt-on acquisitions, a cyclical recovery in some of its end markets (construction, marine, oil & gas) and improving profitability. The business was valued at a very significant discount to its peers at the time of purchase.

Outlook

European stocks have attracted much attention this year because earnings growth in the region is considerably better than it has been for many years. The pattern of successive downgrades every year since 2011 has not recurred. We are encouraged by the favourable backdrop, but the long-term attraction of the European stockmarket lies in the long-term potential of its underlying companies, not the short-term macroeconomic environment. The importance of being selective cannot be emphasised enough. Europe continues to offer excellent opportunities for long-term stockpickers, particularly outside the largest companies which are struggling to grow. Medium-sized companies remain a source of attractive opportunities given their potential to deliver long-term growth for the benefit of shareholders.

As active investors, we remain focused on the analysis of company fundamentals and valuation in the strong belief that these factors drive stockmarket returns over the long term. We remain committed to our conviction-based approach, and we are ready to take advantage of new opportunities. We remain dedicated to our task of generating excellent returns for our clients.

We believe that the cash generative nature of the companies we are invested in, combined with their attractive valuation in the stockmarket, stands us in good stead for the future, and we appreciate your continued support.

Phil Cliff

Fund manager

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

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

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

Investments

Portfolio statement			
as at 31 August	2017	2017	2016
Holding	€'000	%	%
Oil & gas producers	3,121	2.01	4.30
224,628 Galp Energia	3,121	2.01	
Chemicals	8,515	5.49	8.44
45,131 Bayer	4,861	3.13	
22,599 Linde	3,654	2.36	
Mining	0	0.00	2.07
Construction & materials	7,633	4.92	4.89 ^[a]
176,221 CRH	5,167	3.33	
76,235 Kingspan Group	2,466	1.59	
Aerospace & defence	0	0.00	2.25 ^[a]
General industrials	6,056	3.90	0.00
55,026 Siemens	6,056	3.90	
Electronic & electrical equipment	4,681	3.02	2.18
79,003 Legrand	4,681	3.02	
Industrial engineering	8,764	5.65	3.98 ^[a]
299,504 Alfa Laval	5,673	3.66	
261,971 Oerlikon	3,091	1.99	
Industrial transportation	5,003	3.22	4.74
84,301 DSV	5,003	3.22	
Support services	12,929	8.33	7.50
66,171 Amadeus IT Holdings	3,421	2.20	
249,337 Bureau Veritas	4,943	3.19	
123,316 CTS EVENTIM	4,565	2.94	
Automobiles & parts	4,527	2.92	3.01
126,973 Nokian Renkaat	4,527	2.92	
Food producers	12,236	7.88	10.24
81,400 Nestlé (Regd.)	5,805	3.74	
128,769 Unilever	6,431	4.14	
Household goods & home construction	1,687	1.09	0.00
980,045 Cairn Homes	1,687	1.09	
Leisure goods	2,472	1.59	2.81 ^[a]
154,288 Thule Group	2,472	1.59	
Personal goods	7,802	5.03	6.81
54,603 HUGO BOSS	3,895	2.51	
44,334 Pandora	3,907	2.52	
Healthcare equipment & services	4,175	2.69	4.07
53,387 Fresenius Medical Care	4,175	2.69	
Pharmaceuticals & biotechnology	17,976	11.58	10.29
194,401 Essity Aktiebolag	4,500	2.90	
90,757 Novartis (Regd.)	6,365	4.10	
33,623 Roche Holding 'Genussscheine'	7,111	4.58	
Food & drug retailers	2,186	1.41	0.00
53,904 Galenica Santé	2,186	1.41	
General retailers	2,060	1.33	2.02
97,326 Hennes & Mauritz	2,060	1.33	
Media	4,888	3.15	3.98
278,309 RELX	4,888	3.15	
Banks	15,361	9.90	8.27
839,509 Allied Irish Banks	4,208	2.71	
146,012 Erste Group	5,203	3.35	
399,430 ING Groep	5,950	3.84	

M&G European Select Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 31 August	2017	2017	2016
Holding	€'000	%	%
Non-life insurance	8,149	5.25	0.00
36,382 Hannover Re	3,718	2.40	
99,535 Sampo	4,431	2.85	
Financial services	4,115	2.65	2.60
100,701 Banca IFIS	4,115	2.65	
Software & computer services	0	0.00	3.89
Technology hardware & equipment	7,874	5.07	0.00
53,122 ams	3,219	2.07	
240,809 Infineon Technologies	4,655	3.00	
Portfolio of investments (notes 2c & 2d on page 6)	152,210	98.08	98.34
Net other assets / (liabilities)	2,983	1.92	1.66
Net assets attributable to shareholders	155,193	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.

Top ten portfolio transactions

for the year to 31 August 2017

Largest purchases	€'000
Roche Holding 'Genussscheine'	8,829
Linde	6,958
Siemens	6,601
CRH	5,527
Alfa Laval	5,401
Topdanmark	5,036
Erste Group	4,965
Legrand	4,921
RELX	4,898
Bureau Veritas	4,843
Other purchases	80,061
Total purchases	138,040
Largest sales	€'000
SAP	11,159
Roche Holding 'Genussscheine'	9,185
Novo-Nordisk	8,777
Svenska Handelsbanken	7,981
MTU Aero Engines	7,714
Nestlé (Regd.)	7,622
Intrum Justitia	7,490
ING Groep	7,061
LafargeHolcim (Regd.)	6,892
Publicis Groupe	6,813
Other sales	133,413
Total sales	214,107

M&G European Select Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

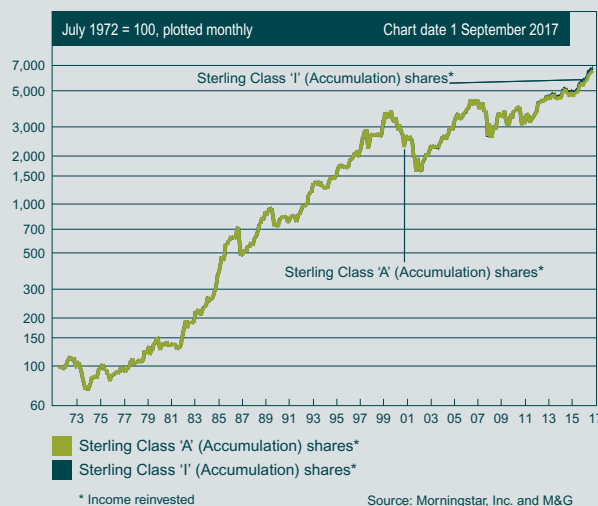
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 €'000	2016 €'000	2015 €'000
Fund net asset value (NAV)	155,193	212,077	230,134

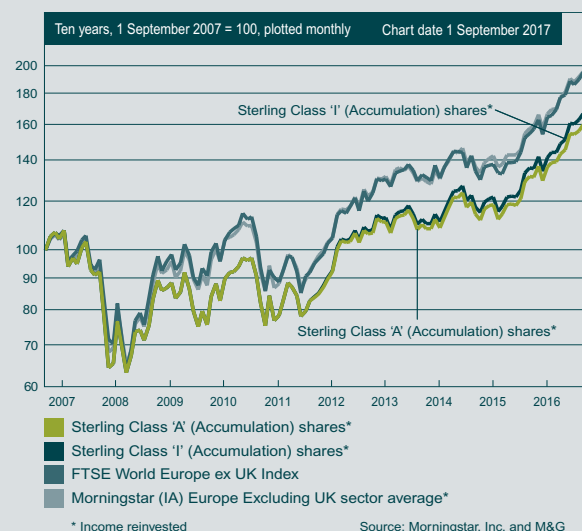
Performance since launch

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



Ten-year performance

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G European Select Fund

Financial highlights

Fund performance

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

	One year 01.09.16 % [a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+12.8	+8.1	+10.7	+3.2 [c]
Class 'C'	+13.7	+8.9	+11.5	+4.0 [c]
Sterling [d]				
Class 'A'	+23.4	+13.7	+14.1	+9.7 [e]
Class 'I'	+24.4	+14.6	+15.0	+15.0 [f]
Class 'R'	+24.1	+14.3	+14.7	+14.8 [f]
Class 'X'	+23.4	+13.7	+14.1	+11.9 [g]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 26 November 2001, the launch date of the share class.

[d] Price to price with income reinvested.

[e] 24 July 1972, the end of the initial offer period of the predecessor unit trust.

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

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

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average [a]
Direct portfolio transaction costs [b]	%	%	%	%
Broker commission	0.11	0.08	0.04	0.07
Taxes	0.07	0.03	0.01	0.04
Costs before dilution adjustments	0.18	0.11	0.05	0.11
Dilution adjustments [c]	(0.06)	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.12	0.10	0.03	0.08
as at 31 August	2017	2016	2015	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.07	0.07	0.12	0.09

[a] Average of first three columns.

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

[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

M&G European Select Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 26 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,451.20	1,455.60	1,293.03
Return before operating charges and after direct portfolio transaction costs	199.50	19.74	188.35
Operating charges	(25.78)	(24.14)	(25.78)
Return after operating charges	173.72	(4.40)	162.57
Distributions	(6.24)	(12.33)	(13.37)
Retained distributions	6.24	12.33	13.37
Closing NAV	1,624.92	1,451.20	1,455.60

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.73	1.65	0.79
Dilution adjustments ^[a]	(0.89)	(0.08)	(0.28)
Total direct portfolio transaction costs	1.84	1.57	0.51

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	1.68	1.68	1.68
Return after operating charges	+11.97	-0.30	+12.57
Historic yield	0.38	0.78	0.99
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	1,943	1,890	1,990
Closing NAV percentage of total fund NAV (%)	1.25	0.89	0.86
Number of shares	119,597	130,264	136,654
Highest share price (Euro ¢)	1,681.04	1,569.06	1,643.68
Lowest share price (Euro ¢)	1,368.75	1,250.33	1,162.38

Euro Class 'C' Accumulation share performance

The share class was launched on 26 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,626.03	1,618.75	1,427.33
Return before operating charges and after direct portfolio transaction costs	225.83	22.10	205.80
Operating charges	(17.43)	(14.82)	(14.38)
Return after operating charges	208.40	7.28	191.42
Distributions	(20.05)	(25.73)	(23.50)
Retained distributions	20.05	25.73	23.50
Closing NAV	1,834.43	1,626.03	1,618.75

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	3.34	1.83	0.80
Dilution adjustments ^[a]	(1.09)	(0.09)	(0.28)
Total direct portfolio transaction costs	2.25	1.74	0.52

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	0.93	0.93	0.93
Return after operating charges	+12.82	+0.45	+13.41
Historic yield	1.09	1.51	1.52
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	8,802	27	27
Closing NAV percentage of total fund NAV (%)	5.67	0.01	0.01
Number of shares	479,795	1,650	1,650
Highest share price (Euro ¢)	1,894.28	1,748.34	1,826.27
Lowest share price (Euro ¢)	1,535.65	1,395.20	1,284.36

Sterling Class 'A' Income share performance

The share class was launched on 27 June 1977.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,695.12	1,482.07	1,437.64
Return before operating charges and after direct portfolio transaction costs	395.81	253.28	80.09
Operating charges	(30.09)	(25.68)	(25.34)
Return after operating charges	365.72	227.60	54.75
Distributions	(40.11)	(14.55)	(10.32)
Closing NAV	2,020.73	1,695.12	1,482.07

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	3.19	1.76	0.78
Dilution adjustments ^[a]	(1.04)	(0.09)	(0.27)
Total direct portfolio transaction costs	2.15	1.67	0.51

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	+21.57	+15.36	+3.81
Historic yield ^[c]	1.97	0.79	0.76
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (€'000)	56,331	125,464	136,358
Closing NAV percentage of total fund NAV (%)	36.30	59.16	59.25
Number of shares	2,567,161	6,277,734	6,744,036
Highest share price (UK p)	2,070.96	1,756.96	1,642.50
Lowest share price (UK p)	1,616.13	1,364.92	1,296.11

M&G European Select Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 24 July 1972.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,543.44	2,204.69	2,123.67
Return before operating charges and after direct portfolio transaction costs	595.07	376.98	118.42
Operating charges	(46.30)	(38.23)	(37.40)
Return after operating charges	548.77	338.75	81.02
Distributions	(11.89)	(21.63)	(15.21)
Retained distributions	11.89	21.63	15.21
Closing NAV	3,092.21	2,543.44	2,204.69

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	4.90	2.61	1.15
Dilution adjustments ^[a]	(1.60)	(0.13)	(0.40)
Total direct portfolio transaction costs	3.30	2.48	0.75

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	+21.58	+15.36	+3.82
Historic yield	0.38	0.79	0.75
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	71,380	69,394	79,735
Closing NAV percentage of total fund NAV (%)	45.99	32.72	34.65
Number of shares	2,125,792	2,314,096	2,651,013
Highest share price (UK p)	3,107.40	2,613.79	2,426.47
Lowest share price (UK p)	2,424.93	2,030.57	1,914.87

Sterling Class 'T' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,536.67	1,343.51	1,303.34
Return before operating charges and after direct portfolio transaction costs	361.18	230.83	73.16
Operating charges	(15.58)	(12.90)	(13.08)
Return after operating charges	345.60	217.93	60.08
Distributions	(36.53)	(24.77)	(19.91)
Closing NAV	1,845.74	1,536.67	1,343.51

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.98	1.60	0.72
Dilution adjustments ^[a]	(0.97)	(0.08)	(0.25)
Total direct portfolio transaction costs	2.01	1.52	0.47

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	0.93	0.93	0.94
Return after operating charges	+22.49	+16.22	+4.61
Historic yield ^[c]	1.97	1.55	1.55
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (€'000)	7,599	6,655	5,540
Closing NAV percentage of total fund NAV (%)	4.90	3.14	2.41
Number of shares	379,140	367,341	302,291
Highest share price (UK p)	1,891.28	1,604.12	1,496.18
Lowest share price (UK p)	1,467.88	1,241.39	1,176.36

Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,651.90	1,421.10	1,358.63
Return before operating charges and after direct portfolio transaction costs	388.18	244.43	75.86
Operating charges	(16.68)	(13.63)	(13.39)
Return after operating charges	371.50	230.80	62.47
Distributions	(22.09)	(26.22)	(20.65)
Retained distributions	22.09	26.22	20.65
Closing NAV	2,023.40	1,651.90	1,421.10

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	3.19	1.69	0.74
Dilution adjustments ^[a]	(1.04)	(0.08)	(0.26)
Total direct portfolio transaction costs	2.15	1.61	0.48

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	0.93	0.93	0.94
Return after operating charges	+22.49	+16.24	+4.60
Historic yield	1.08	1.53	1.52
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	6,024	5,572	3,074
Closing NAV percentage of total fund NAV (%)	3.88	2.63	1.34
Number of shares	274,161	286,115	158,562
Highest share price (UK p)	2,033.09	1,697.03	1,559.45
Lowest share price (UK p)	1,577.94	1,313.29	1,226.24

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	153.77	134.47	130.40
Return before operating charges and after direct portfolio transaction costs	36.09	23.02	7.27
Operating charges	(1.97)	(1.63)	(1.61)
Return after operating charges	34.12	21.39	5.66
Distributions	(3.65)	(2.09)	(1.59)
Closing NAV	184.24	153.77	134.47

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.30	0.16	0.07
Dilution adjustments ^[a]	(0.10)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.20	0.15	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	1.18	1.18	1.19
Return after operating charges	+22.19	+15.91	+4.34
Historic yield ^[c]	1.97	1.30	1.25
Effect on yield of charges offset against capital	1.15	0.00	0.00

Other information

Closing NAV (€'000)	183	181	146
Closing NAV percentage of total fund NAV (%)	0.12	0.09	0.06
Number of shares	91,288	99,710	79,710
Highest share price (UK p)	188.80	160.14	149.44
Lowest share price (UK p)	146.80	124.09	117.64

M&G European Select Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	163.58	141.08	135.22
Return before operating charges and after direct portfolio transaction costs	38.39	24.22	7.52
Operating charges	(2.10)	(1.72)	(1.66)
Return after operating charges	36.29	22.50	5.86
Distributions	(1.71)	(2.19)	(1.64)
Retained distributions	1.71	2.19	1.64
Closing NAV	199.87	163.58	141.08
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.32	0.17	0.07
Dilution adjustments ^[a]	(0.10)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.22	0.16	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	1.18	1.18	1.19
Return after operating charges	+22.18	+15.95	+4.33
Historic yield	0.85	1.28	1.22
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	65	41	41
Closing NAV percentage of total fund NAV (%)	0.04	0.02	0.02
Number of shares	29,944	21,000	21,000
Highest share price (UK p)	200.83	168.07	154.97
Lowest share price (UK p)	156.15	130.23	122.01

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,678.43	1,467.49	1,423.71
Return before operating charges and after direct portfolio transaction costs	392.67	250.76	79.41
Operating charges	(30.55)	(25.43)	(25.16)
Return after operating charges	362.12	225.33	54.25
Distributions	(39.72)	(14.39)	(10.47)
Closing NAV	2,000.83	1,678.43	1,467.49
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	3.24	1.74	0.77
Dilution adjustments ^[a]	(1.06)	(0.08)	(0.27)
Total direct portfolio transaction costs	2.18	1.66	0.50
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	+21.57	+15.35	+3.81
Historic yield ^[c]	1.97	0.79	0.78
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (€'000)	1,981	1,981	2,162
Closing NAV percentage of total fund NAV (%)	1.28	0.93	0.94
Number of shares	91,178	100,109	107,976
Highest share price (UK p)	2,050.58	1,739.64	1,626.62
Lowest share price (UK p)	1,600.21	1,351.48	1,283.57

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,516.67	2,181.50	2,101.31
Return before operating charges and after direct portfolio transaction costs	588.73	373.01	117.26
Operating charges	(45.77)	(37.84)	(37.07)
Return after operating charges	542.96	335.17	80.19
Distributions	(11.77)	(21.39)	(15.41)
Retained distributions	11.77	21.39	15.41
Closing NAV	3,059.63	2,516.67	2,181.50
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	4.85	2.59	1.14
Dilution adjustments ^[a]	(1.58)	(0.13)	(0.40)
Total direct portfolio transaction costs	3.27	2.46	0.74
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.12	0.10	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	+21.57	+15.36	+3.82
Historic yield	0.38	0.79	0.77
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	885	872	1,061
Closing NAV percentage of total fund NAV (%)	0.57	0.41	0.46
Number of shares	26,649	29,388	35,669
Highest share price (UK p)	3,074.66	2,586.27	2,400.94
Lowest share price (UK p)	2,399.39	2,009.19	1,894.71

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		€'000	€'000	€'000	€'000
Income					
Net capital gains / (losses)	3		19,901		(3,725)
Revenue	5	3,889		6,677	
Expenses	6	(2,982)		(3,630)	
Net revenue / (expense) before taxation		907		3,047	
Taxation	7	(333)		(511)	
Net revenue / (expense) after taxation			574		2,536
Total return before distributions			20,475		(1,189)
Distributions	8		(1,758)		(1,946)
Change in net assets attributable to shareholders from investment activities			18,717		(3,135)

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		212,077		230,134
Amounts received on issue of shares	47,898		7,102	
Amounts paid on cancellation of shares	(124,106)		(22,747)	
		(76,208)		(15,645)
Dilution adjustments		158		19
Change in net assets attributable to shareholders from investment activities (see above)		18,717		(3,135)
Retained distributions on Accumulation shares		448		703
Unclaimed distributions		1		1
Closing net assets attributable to shareholders		155,193		212,077

Balance sheet

as at 31 August	Note	2017 €'000	2016 €'000
Assets			
Fixed assets			
Investments		152,210	208,559
Current assets			
Debtors	9	1,487	1,861
Cash and bank balances	10	3,288	3,733
Total assets		156,985	214,153
Liabilities			
Creditors			
Distribution payable		(1,311)	(1,203)
Other creditors	11	(481)	(873)
Total liabilities		(1,792)	(2,076)
Net assets attributable to shareholders		155,193	212,077

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's functional and presentational currency is euros as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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 31 August	2017 €'000	2016 €'000
Non-derivative securities	19,749	(3,746)
Currency gains / (losses)	155	24
Transaction charges	(3)	(3)
Net capital gains / (losses)	19,901	(3,725)

M&G European Select Fund

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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 48.

for the year to 31 August	2017 €'000	% of transaction	2016 €'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	133,468		61,348	
Commissions	94	0.07	79	0.13
Taxes	121	0.09	67	0.11
Equities after transaction costs	133,683		61,494	
Other transaction types				
Corporate actions	4,357		0	
Total purchases after transaction costs	138,040		61,494	
b) Sales				
Equities				
Equities before transaction costs	211,831		74,566	
Commissions	(109)	0.05	(107)	0.14
Equities after transaction costs	211,722		74,459	
Other transaction types				
Corporate actions	2,385		3,188	
Total sales after transaction costs	214,107		77,647	
c) Direct portfolio transaction costs				
	2017 €'000	% of average NAV	2016 €'000	% of average NAV
Commissions paid				
Equities	203	0.11	186	0.08
Taxes paid				
Equities	121	0.07	67	0.03
Total direct portfolio transaction costs [a]	324	0.18	253	0.11
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread [b]		0.07		0.07

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

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

5 Revenue

for the year to 31 August	2017 €'000	2016 €'000
Bank interest	13	0
Dividends from equity investments: non-taxable	3,341	6,112
Dividends from equity investments: taxable	77	(25)
Stock dividends	458	590
Total revenue	3,889	6,677

6 Expenses

for the year to 31 August	2017 €'000	2016 €'000
Payable to the ACD or associate		
Annual management charge	2,636	3,225
Administration charge	274	331
	2,910	3,556
Payable to the Depositary or associate		
Depositary's charge (including VAT)	16	19
Other expenses		
Audit fee (including VAT)	9	10
Interest payable	22	17
Legal fees	0	1
Safe custody charge	25	28
	56	56
VAT recoverable		
Current year	0	0
Prior year	0	(1)
	0	(1)
Total expenses	2,982	3,630

7 Taxation

for the year to 31 August	2017 €'000	2016 €'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	333	511
Deferred tax (note 7c)	0	0
Total taxation	333	511
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	907	3,047
Corporation tax at 20%	182	609
Effects of:		
Dividends from equity investments: non-taxable	(668)	(1,222)
Stock dividends not taxable	(92)	(118)
Current year expenses not utilised	578	731
Withholding tax	333	511
Total tax charge (note 7a)	333	511
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 €5,367,000 (2016: €4,789,000) 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.

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8 Distributions

for the year to 31 August	2017		2016	
	Inc ^[a] €'000	Acc ^[b] €'000	Inc ^[a] €'000	Acc ^[b] €'000
Dividend distributions				
Final	1,311	448	1,203	703
Total net distributions		1,759		1,906
Income deducted on cancellation of shares		107		31
Income received on issue of shares		(108)		9
Distributions		1,758		1,946
Net revenue / (expense) per statement of total return		574		2,536
Expenses offset against capital		1,642		0
Stock dividends not distributed		(458)		(590)
Distributions		1,758		1,946

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 August	2017 €'000	2016 €'000
Amounts receivable on issues of shares	38	0
Currency deals outstanding	0	235
Dividends receivable	51	109
Interest receivable on withholding tax previously withheld at source	0	9
Withholding tax recoverable	1,398	1,508
Total debtors	1,487	1,861

10 Cash and bank balances

as at 31 August	2017 €'000	2016 €'000
Cash held as bank balances	3,288	3,733
Total cash and bank balances	3,288	3,733

11 Other creditors

as at 31 August	2017 €'000	2016 €'000
ACD's annual management charge payable	102	135
Administration charge payable	11	14
Amounts payable on cancellation of shares	153	269
Corporation tax payable	200	200
Currency deals outstanding	0	235
Expenses payable	15	20
Total other creditors	481	873

12 Contingent assets, liabilities and outstanding commitments

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

The fund has not recognised a contingent asset of €200,240. As a result of the European Court of Justice rulings in November 2012 and High Court judgements in October 2013 in relation to Prudential Assurance Co Ltd v Revenue & Customs Commissioners, the fund can potentially recover UK corporation tax suffered on overseas dividends receivable before July 2009 (overseas dividends received post 2009 are not taxable). Full recovery of this asset is not certain, however, an estimated accrual is included within the daily price of the fund's shares. The contingent asset will be reflected in the financial statements when receipt of the reclaims becomes virtually certain.

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	130,264	31,000	(41,667)	119,597
Class 'C' Accumulation	1,650	478,945	(800)	479,795
Sterling				
Class 'A' Income	6,277,734	1,854,051	(5,564,624)	2,567,161
Class 'A' Accumulation	2,314,096	8,530	(196,834)	2,125,792
Class 'I' Income	367,341	60,022	(48,223)	379,140
Class 'I' Accumulation	286,115	35,122	(47,076)	274,161
Class 'R' Income	99,710	0	(8,422)	91,288
Class 'R' Accumulation	21,000	13,000	(4,056)	29,944
Class 'X' Income	100,109	0	(8,931)	91,178
Class 'X' Accumulation	29,388	200	(2,939)	26,649

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50

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

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 37.68% (2016: 50.81%) of the fund's shares.

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16 Events after the balance sheet date

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

17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets 2017 €'000	Liabilities 2017 €'000	Assets 2016 €'000	Liabilities 2016 €'000
Level 1	152,210	0	208,559	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	152,210	0	208,559	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 €7,611,000 (2016: €10,428,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by €7,760,000 (2016: €10,604,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017 €'000	2016 €'000
Currency exposure in respect of the fund		
Danish krone	8,998	23,690
Euro	104,373	120,783
Norwegian krone	0	4,356
Sterling	(1,316)	3,962
Swedish krona	14,706	22,527
Swiss franc	28,431	36,759
US dollar	1	0
Total	155,193	212,077

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

M&G European Select Fund

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23 Dividend distribution tables (continued)

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	6.2351	0.0000	6.2351	12.3280

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	1.2161	18.8304	20.0465	25.7279

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	39.8722	0.2374	40.1096	14.5483

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	6.0329	5.8557	11.8886	21.6278

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	13.0238	23.5088	36.5326	24.7742

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	10.9914	11.1020	22.0934	26.2203

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	3.1852	0.4649	3.6501	2.0917

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	1.7143	0.0000	1.7143	2.1946

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	38.9673	0.7487	39.7160	14.3872

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	11.7739	0.0000	11.7739	21.3864

M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests in smaller companies in Europe, with the sole objective of long term capital growth. It will invest wholly or mainly in securities of European companies which constitute the bottom third in terms of total market capitalisation of all publicly listed equity in Europe. When not wholly invested as above, the Fund may only invest in medium and larger capitalised companies in order to enhance the liquidity of the Fund.

Investment approach

The M&G European Smaller Companies Fund invests in smaller quality companies, with advantageous characteristics, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity, and will engage with management where appropriate, to help bring about positive change.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings. The fund manager keeps the portfolio focused, generally holding fewer than 50 well-understood stocks from a diverse universe of smaller companies, which is often less well-covered and understood than a universe of larger businesses.

Holdings in the fund generally fall into one of two 'buckets' – 'stable growth' and 'opportunities'. The manager sees stable growth companies as those that generate high levels of cash with a visible reinvestment plan, and represent lower business risk. Opportunities companies tend to be improving their returns on capital, have more potential for internal change and are more attractively valued at the point of investment.

Risk profile

The fund invests in the shares of smaller Europe-listed companies and is, therefore, subject to the price volatility of the European stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on smaller companies where the share price movement can be more unpredictable and the shares more difficult to buy and sell compared to those of larger companies. Diversification across countries, 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 changed during this period. From 1 September 2016 to 23 February 2017 the risk number was 6.

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G European Smaller Companies Fund delivered positive total returns (the combination of income and growth of capital) across all of its share classes, with all share classes finishing ahead of a comparable index, the Euromoney Smaller European Companies Index.* Over the 12 months, returns from the index were 27.6%, 17.3% and 24.4% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has met its objective of delivering positive capital growth.

Investment performance

European stockmarkets delivered positive returns for the 12 months under review, with smaller companies outpacing both the wider European and global markets. The period under review was eventful for European stockmarkets. As we started the period, investors had broadly switched their attention to elections in the US, having previously been focused on the aftermath of the UK referendum on EU membership. Markets were turbulent in the run-up to November's presidential contest, but then rose steadily following the surprise election of Donald Trump, as the potential for reduced taxes and regulation, as well as a prospective boost to spending on infrastructure, cheered US investors – this positive mood was reflected in Europe. Following a lull as we entered the new year, markets then maintained their upward trajectory for much of the period under review, with political and economic developments in Europe helping to drive sentiment on the continent.

In political terms, the tide of populism – highlighted in 2016 by the 'Brexit' decision in the UK and Donald Trump's presidency in the US – was stemmed in Europe, with elections in Holland and France failing to elect candidates from the extremes of the political spectrum; this had a positive effect on markets. Investors were also enlivened by strong business sentiment and accelerating economic activity, which

M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

helped to drive earnings. The euro's value, as well, was boosted by Emmanuel Macron's clear-cut win in the French presidential election, while strong economic data from across the region helped to extend gains. With a sharp decrease in eurozone unemployment and business confidence surveys continuing their positive trend, Europe has appeared to be in the midst of a broad-based upturn, helping to further improve investor confidence. The currency strength, however, had ramifications for euro denominated investments – while stockmarkets continued to deliver positive returns in sterling and US dollar terms, returns in euro flattened as we moved through the end of the period under review, reflecting the euro's relative rise in value.

Against this background, the industrial goods, technology and basic materials sectors delivered the strongest performance in the smaller company space, while retail providers and financials lagged the wider market. For the fund, outperformance was driven by stock selection within the industrial goods sector, while stockpicking among consumer goods, retail providers and technology was also supportive. On the downside, selection among business providers, natural resources and financials weighed on relative returns, but this was more than compensated for by the fund's positive contributors.

At an individual stock level, the fund's largest contributor for the period was AMS, an Austrian-based company that develops and manufactures high-performance sensors for applications across a wide range of industries. AMS reported near the middle of the review period that it saw potential for strong revenue growth in 2017, helped by its acquisition of optical sensor maker Heptagon in Singapore; its share price rose sharply in reaction, and continued to appreciate as we moved through the period. Investors were also expecting the company to benefit from the launch of Apple's iPhone 8, expected at the end of 2017, further boosting sentiment.

German engine manufacturer Deutz also delivered robust performance, its shares rising steadily for most of the review period. This was on the back of ongoing operational success, including solid sales and improving earnings. Its shares did sell off to a degree near the end of the review period, after truck maker Volvo sold its 25% stake in the business, but this decline was not enough to wipe off the strong gains made earlier in the year.

Other supportive holdings included Irish housebuilder Cairn Homes and Equiniti Group, a market leader in technology, finance and administrative services in complex or regulated markets. Cairn has benefited from recovery in the Irish housing market, particularly as it is the sole Irish property developer legally allowed to build for the private sector (following government action after the Irish housing bubble burst in 2007). We think investors are beginning to realise the value of this business, and that has been reflected in its share price performance. Equiniti's shares, meanwhile, have benefited from investors beginning to realise the potential positive outcomes of the company's recent restructuring, with some of its expensive UK development costs being transferred to India. Investors are also realising that the company sits on a lot of cash, and stands to benefit from rising interest rates.

On the downside, the fund's largest detractor was branded jewellery creator Pandora. Having performed well for some time, the company's shares slid after it forecast for slower revenue growth than

anticipated, as well as squeezed margins in light of higher commodity prices. The company's slower revenue growth largely resulted from its operations in the US, where the retail environment has been particularly challenging. As we neared the end of the review period, though, Pandora reported an increase in US like-for-like sales, driven by more effective advertising and promotions.

ID Logistics, a high-quality French warehouse outsourcing specialist, dragged on returns as well. The company's shares fell sharply near the middle of the period under review, after it reported lower-than-expected earnings. This was, counterintuitively, mainly due to strong growth and the establishment of new contracts – it was the start-up costs associated with these contracts that weighed on earnings. We think the long-term investment case for the company remains intact, and we are comfortable with the holding.

Other laggards included healthcare technology company EMIS Group and diversified business services and distribution firm DCC. A major supplier to the UK's National Health Service, Emis announced that new rollouts of its systems in Northern Ireland were progressing more slowly than had previously been expected, while facing an increasingly difficult operating environment as a result of NHS funding pressures; investors were disappointed. DCC, meanwhile, saw a degree of profit taking over the period following a strong run of performance and continued operational success, including both solid organic growth and successful merger and acquisition activity.

Investment activities

We run a concentrated portfolio of fewer than 50 holdings, maintaining a watchlist of around 200 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues, or 'disruptions', to create buying opportunities.

During the review period, seven such opportunities presented themselves. The first was allergy immunotherapy specialist ALK-Abelló. ALK is a quality company that specialises in autoimmune therapy for dust mite and grass allergies. These treatments used to be injectable, which could result in sometimes fatal allergic reactions, but ALK has developed much safer, and easier to administer, pills. We see strong growth potential for the business, particularly if its distribution strategy plays out.

We bought shares in AMS, the company mentioned above that develops and manufactures high-performance sensors. The stock had come under heavy selling pressure in light of issues surrounding the Samsung Galaxy – ie exploding batteries. We saw this as a one-off issue for the company, which provided the disruption that allowed us to buy the stock at an attractive price.

We added a position in Academedia, the largest independent education provider in Northern Europe. The company is the biggest provider of private education in the Nordic region, receives stable funding from state vouchers, and we think that as a large scale player, it should benefit from consolidation within the market.

We invested in nanotech medical equipment business MagForce. The company's unique procedure injects coated iron nano-particles into tumours. The patient is then placed in a magnetic field, which causes the particles to heat and destroy the tumour from within. The technique has proven successful for deadly glioblastoma brain

M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

tumours, and is being developed for prostate cancer. We think this is an exciting, game-changing company that has the potential to save lives.

Also related to healthcare, we participated in the IPO (initial public offering) of private healthcare provider Medicover. This is the largest private healthcare provider in Poland, where it has operated for over twenty years, with patient data built up over that time providing clarity on costs. This makes optimising the business much easier than for a smaller, less established player. We also invested in Swiss pharma company Galenica, which spun off from Galenica Sante in March. The company's previous focus had been on drug development, but Galenica is now investing in over-the-counter branded healthcare, including health and beauty products. This company is delivering growth at high margins, and we consider it a safe business in a safe currency.

Finally, we invested in UK-listed pet specialist Pets at Home. Founded in 1991, the company is the largest pet specialist in the UK, particularly in terms of non-food products and Advanced Nutrition. It is also increasingly focused on high levels of service, including veterinary practices and grooming, to strengthen its customer base.

Conversely, we exited six of the fund's holdings during the period: medical packaging company Gerresheimer, which we had been reducing for some time, German specialist automotive parts producer ElringKlinger, Swedish credit management services and solutions business Intrum Justitia, testing business Eurofins Scientific, property company Shaftesbury and sensor technology firm Datalogic.

Outlook

We believe that improvements in economic growth, company fundamentals and earnings expectations have all helped to support investor sentiment in European smaller companies. Geopolitical risks still obviously exist – from uncertainty in the US, including both domestic and foreign policy, to the political climate in Europe, escalating tensions in North Korea to the unknown impact of Brexit. The difference is that investors seem to be more sanguine about these developments than they were a year ago, and generally appear to be more focused on fundamentals than newsflow.

In general, though, the valuation case for European smaller companies is not as compelling as it was a year ago: the market appears to be overpaying for growth oriented companies, while many cyclical companies (that is, those that are sensitive to business cycles) now seem to be priced for a full economic upturn. This has led us to intensify our screening of companies with idiosyncratic characteristics, as well as companies undergoing internal restructuring, rather than relying on supportive external change.

Against this backdrop, there remains an engrained belief that small-cap stocks are more volatile than large-caps, and are therefore more 'risky'. For us, risk is the permanent impairment of capital – we think that volatility is actually an opportunity. Because our process is built around performing deep research on companies within our watchlist (and then waiting for the right valuation before investing), we can calmly take advantage of volatility when a company's share price

corrects disproportionately strongly to newsflow, having already carried out the necessary analysis upstream. We try to produce the highest level of returns for a calculated level of risk.

In terms of the current portfolio, we remain confident in the quality of our holdings, and firmly believe that they will generate long-term value for the fund. As long-term investors, this is our focus, and we continue to be optimistic about their prospects.

Michael Oliveros

Fund manager

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

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

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

Investments

Portfolio statement

as at 31 August	2017	2017	2016
Holding	€'000	%	%
Oil & gas producers	1,407	0.78	1.15
1,750,509 Ophir Energy	1,407	0.78	
Oil equipment, services & distribution	4,552	2.52	3.32
39,779 Schoeller Bleckmann Oilfield (formerly Schoeller-Bleckmann)	2,322	1.29	
76,537 Técnicas Reunidas	2,230	1.23	
Chemicals	8,596	4.76	2.06
59,167 Frutarom Industries	3,839	2.13	
610,461 MagForce	4,757	2.63	
Construction & materials	9,811	5.43	6.21 ^[a]
306,813 Arbonia (formerly AFG Arbonia-Forster-Holding AG)	4,505	2.49	
93,610 Kingspan Group	3,028	1.68	
94,535 PORR	2,278	1.26	
Aerospace & defence	3,654	2.02	1.77 ^[a]
98,252 LISI	3,654	2.02	
General industrials	0	0.00	0.00 ^[a]
Electronic & electrical equipment	6,750	3.74	3.66
34,037 Comet	4,009	2.22	
94,406 EVS Broadcast Equipment	2,741	1.52	
Industrial engineering	18,546	10.26	9.42 ^[a]
69,695 Cargotec	3,513	1.94	
664,645 Deutz	4,249	2.35	
85,959 Jungheinrich Pref. (non-voting)	3,042	1.68	
223,815 Kongsberg Gruppen	3,086	1.71	
394,684 Oerlikon	4,656	2.58	
Industrial transportation	8,057	4.46	5.38 ^[a]
28,402 ID Logistics	3,837	2.12	
204,990 Logista	4,220	2.34	
Support services	12,440	6.88	6.37 ^[a]
116,035 CTS EVENTIM	4,295	2.37	
45,980 DCC	3,500	1.94	
1,568,358 Equiniti	4,645	2.57	

M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 31 August Holding	2017 €'000	2017 %	2016 %
Automobiles & parts	0	0.00	0.95 [a]
Food producers	3,214	1.78	3.67
500,397 Origin Enterprises	3,214	1.78	
Household goods & home construction	10,400	5.75	5.35 [a]
2,225,839 Cairn Homes	3,839	2.12	
193,079 Leifheit	6,561	3.63	
Leisure goods	3,855	2.13	3.41 [a]
240,586 Thule Group	3,855	2.13	
Personal goods	6,530	3.61	4.14 [a]
56,155 HUGO BOSS	4,006	2.22	
28,641 Pandora	2,524	1.39	
Healthcare equipment & services	7,114	3.94	6.66 [a]
530,024 Medicover	3,436	1.90	
406,147 UDG Healthcare	3,678	2.04	
Pharmaceuticals & biotechnology	9,041	5.00	3.38
27,093 ALK-Abelló 'B'	3,573	1.98	
1,212,077 Indivior	5,468	3.02	
Food & drug retailers	3,755	2.08	0.00 [a]
92,602 Galenica	3,755	2.08	
General retailers	18,815	10.41	5.04
589,424 AcadeMedia	3,495	1.93	
1,790,164 Pets at home	3,497	1.94	
218,266 TAKKT	4,291	2.37	
376,339 WH Smith	7,532	4.17	
Media	0	0.00	1.29
Banks	3,527	1.96	1.09
507,447 Bank of Ireland	3,527	1.96	
Non-life insurance	4,602	2.55	3.38
366,304 Jardine Lloyd Thompson Group	4,602	2.55	
Real estate investment trusts	0	0.00	1.12
Financial services	12,010	6.65	7.05 [a]
307,312 FinTech Group	5,382	2.98	
189,706 GAM Holding (Regd.)	2,429	1.34	
234,727 Mutares	2,940	1.63	
92,582 MyBucks	1,259	0.70	
Software & computer services	15,727	8.70	13.74 [a]
112,725 Criteo ADR	4,516	2.50	
297,823 EMIS Group	3,160	1.75	
285,821 Indra Sistemas	3,817	2.11	
29,261 Sopra Steria (formerly Sopra)	4,234	2.34	
Technology hardware & equipment	3,831	2.12	0.00
63,218 ams	3,831	2.12	
Portfolio of investments	176,234	97.53	99.61
'AAA' rated money market funds [b]	5,844	3.24	0.49
5,382,000 Northern Trust Global Fund - Sterling	5,844	3.24	
Total portfolio (notes 2c & 2d on page 6)	182,078	100.77	100.10
Net other assets / (liabilities)	(1,383)	(0.77)	(0.10)
Net assets attributable to shareholders	180,695	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] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

Top ten portfolio transactions

for the year to 31 August 2017

	€'000
Largest purchases	
MagForce	4,237
AcadeMedia	3,579
Galenica Santé	3,531
ALK-Abelló	3,439
Pets at home	3,204
Medicover	3,121
WH Smith	2,620
ams	1,971
Arbonia (formerly AFG Arbonia-Forster-Holding AG)	1,950
TAKKT	1,901
Other purchases	17,278
Total purchases	46,831
Largest sales	
Eurofins Scientific	3,661
Intrum Justitia	3,542
Datalogic	3,170
Gerresheimer Group	2,878
Chr. Hansen Holding	2,292
GFK	1,828
Shaftesbury	1,549
Thule Group	1,392
ElingKlinger	1,352
Criteo ADR	1,270
Other sales	12,538
Total sales	35,472

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

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

We show performance for these two share classes because:

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

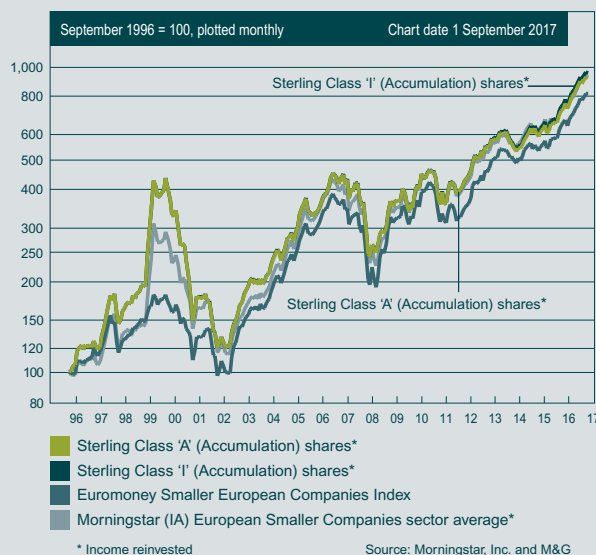
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
	2017	2016	2015
as at 31 August	€'000	€'000	€'000
Fund net asset value (NAV)	180,695	140,323	164,977

Performance since launch

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

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

Long-term performance by share class

	One year 01.09.16 % [a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+17.7	+12.3	+14.4	+8.3 [c]
Class 'C'	+18.6	+13.1	+15.2	+9.1 [c]
Sterling [d]				
Class 'A'	+28.8	+18.1	+17.9	+11.2 [e]
Class 'I'	+29.8	+19.0	+18.8	+19.0 [f]
Class 'R'	+29.5	+18.7	+18.5	+18.7 [f]
Class 'X'	+28.8	+18.1	+17.9	+14.7 [g]
US dollar [b]				
Class 'A'	+25.8	+8.7	n/a	+9.2 [h]
Class 'C'	+26.8	+9.5	n/a	+10.1 [h]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 28 November 2001, the launch date of the share class.

[d] Price to price with income reinvested.

[e] 30 September 1996, the end of the initial offer period of the predecessor unit trust.

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

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

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

M&G European Smaller Companies Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.03	0.14	0.05	0.07
Taxes	0.05	0.10	0.05	0.07
Costs before dilution adjustments	0.08	0.24	0.10	0.14
Dilution adjustments ^[c]	(0.03)	(0.04)	(0.04)	(0.04)
Total direct portfolio transaction costs	0.05	0.20	0.06	0.10
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.25	0.28	0.32	0.28

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

M&G European 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.

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,986.95	2,913.17	2,490.33
Return before operating charges and after direct portfolio transaction costs	594.80	123.09	468.29
Operating charges	(56.05)	(49.31)	(45.45)
Return after operating charges	538.75	73.78	422.84
Distributions	(6.84)	(18.19)	(10.45)
Retained distributions	6.84	18.19	10.45
Closing NAV	3,525.70	2,986.95	2,913.17

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.65	6.89	2.76
Dilution adjustments ^[a]	(0.99)	(1.30)	(1.18)
Total direct portfolio transaction costs	1.66	5.59	1.58

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+18.04	+2.53	+16.98
Historic yield	0.19	0.60	0.36
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	18,461	13,935	36,485
Closing NAV percentage of total fund NAV (%)	10.22	9.93	22.12
Number of shares	523,605	466,517	1,252,426
Highest share price (Euro ¢)	3,639.00	3,159.54	3,190.29
Lowest share price (Euro ¢)	2,918.05	2,560.14	2,170.86

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	3,327.96	3,221.24	2,733.43
Return before operating charges and after direct portfolio transaction costs	664.45	137.14	514.30
Operating charges	(34.48)	(30.42)	(26.49)
Return after operating charges	629.97	106.72	487.81
Distributions	(35.49)	(44.78)	(20.05)
Retained distributions	35.49	44.78	20.05
Closing NAV	3,957.93	3,327.96	3,221.24

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.94	7.67	2.90
Dilution adjustments ^[a]	(1.10)	(1.45)	(1.23)
Total direct portfolio transaction costs	1.84	6.22	1.67

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	0.93	0.94	0.94
Return after operating charges	+18.93	+3.31	+17.85
Historic yield	0.89	1.33	0.62
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	727	666	226
Closing NAV percentage of total fund NAV (%)	0.40	0.48	0.14
Number of shares	18,372	20,007	7,014
Highest share price (Euro ¢)	4,075.65	3,500.38	3,524.63
Lowest share price (Euro ¢)	3,255.55	2,840.49	2,385.15

Sterling Class 'A' Income share performance

The share class was launched on 30 September 1996.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	328.76	278.80	259.74
Return before operating charges and after direct portfolio transaction costs	98.88	56.95	24.97
Operating charges	(6.28)	(4.96)	(4.49)
Return after operating charges	92.60	51.99	20.48
Distributions	(7.35)	(2.03)	(1.42)
Closing NAV	414.01	328.76	278.80

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.30	0.69	0.27
Dilution adjustments ^[a]	(0.11)	(0.13)	(0.12)
Total direct portfolio transaction costs	0.19	0.56	0.15

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+28.17	+18.65	+7.88
Historic yield ^[c]	1.78	0.61	0.51
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (€'000)	94,287	83,808	87,706
Closing NAV percentage of total fund NAV (%)	52.18	59.73	53.16
Number of shares	20,972,892	21,621,923	23,059,236
Highest share price (UK p)	423.28	337.13	293.79
Lowest share price (UK p)	326.86	259.82	227.11

M&G European Smaller Companies Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 30 September 1996.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	345.71	291.37	270.10
Return before operating charges and after direct portfolio transaction costs	103.94	59.53	25.93
Operating charges	(6.61)	(5.19)	(4.66)
Return after operating charges	97.33	54.34	21.27
Distributions	(0.86)	(2.12)	(1.46)
Retained distributions	0.86	2.12	1.46
Closing NAV	443.04	345.71	291.37

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.31	0.73	0.28
Dilution adjustments ^[a]	(0.12)	(0.14)	(0.12)
Total direct portfolio transaction costs	0.19	0.59	0.16

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+28.15	+18.65	+7.87
Historic yield	0.19	0.61	0.50
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	30,550	23,174	26,374
Closing NAV percentage of total fund NAV (%)	16.91	16.52	15.99
Number of shares	6,349,972	5,685,714	6,634,714
Highest share price (UK p)	445.08	352.33	305.48
Lowest share price (UK p)	343.71	271.54	236.16

Sterling Class 'T' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,782.92	1,511.79	1,407.64
Return before operating charges and after direct portfolio transaction costs	538.44	310.47	136.14
Operating charges	(18.96)	(15.03)	(13.67)
Return after operating charges	519.48	295.44	122.47
Distributions	(40.08)	(24.31)	(18.32)
Closing NAV	2,262.32	1,782.92	1,511.79

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.62	3.79	1.50
Dilution adjustments ^[a]	(0.61)	(0.72)	(0.64)
Total direct portfolio transaction costs	1.01	3.07	0.86

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	0.93	0.94	0.94
Return after operating charges	+29.14	+19.54	+8.70
Historic yield ^[c]	1.77	1.35	1.21
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (€'000)	7,230	6,251	3,108
Closing NAV percentage of total fund NAV (%)	4.00	4.45	1.88
Number of shares	294,308	297,383	150,717
Highest share price (UK p)	2,312.90	1,841.32	1,601.29
Lowest share price (UK p)	1,773.17	1,413.61	1,231.99

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,873.64	1,567.32	1,442.01
Return before operating charges and after direct portfolio transaction costs	565.69	321.90	139.33
Operating charges	(20.06)	(15.58)	(14.02)
Return after operating charges	545.63	306.32	125.31
Distributions	(21.71)	(25.19)	(18.38)
Retained distributions	21.71	25.19	18.38
Closing NAV	2,419.27	1,873.64	1,567.32

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.71	3.93	1.54
Dilution adjustments ^[a]	(0.64)	(0.74)	(0.65)
Total direct portfolio transaction costs	1.07	3.19	0.89

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	0.93	0.94	0.94
Return after operating charges	+29.12	+19.54	+8.69
Historic yield	0.90	1.33	1.17
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	8,745	6,335	4,374
Closing NAV percentage of total fund NAV (%)	4.84	4.51	2.65
Number of shares	332,881	286,788	204,531
Highest share price (UK p)	2,430.38	1,908.97	1,640.23
Lowest share price (UK p)	1,863.26	1,465.56	1,262.08

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	177.97	151.00	140.64
Return before operating charges and after direct portfolio transaction costs	53.68	30.85	13.56
Operating charges	(2.38)	(1.90)	(1.71)
Return after operating charges	51.30	28.95	11.85
Distributions	(4.00)	(1.98)	(1.49)
Closing NAV	225.27	177.97	151.00

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.16	0.38	0.15
Dilution adjustments ^[a]	(0.06)	(0.07)	(0.06)
Total direct portfolio transaction costs	0.10	0.31	0.09

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.18	1.19	1.19
Return after operating charges	+28.83	+19.17	+8.43
Historic yield ^[c]	1.77	1.10	1.01
Effect on yield of charges offset against capital	1.15	0.00	0.00

Other information

Closing NAV (€'000)	103	131	139
Closing NAV percentage of total fund NAV (%)	0.06	0.09	0.08
Number of shares	42,204	62,372	67,372
Highest share price (UK p)	230.29	183.36	159.68
Lowest share price (UK p)	176.98	140.95	123.05

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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 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	185.50	155.57	143.49
Return before operating charges and after direct portfolio transaction costs	55.94	31.88	13.82
Operating charges	(2.50)	(1.95)	(1.74)
Return after operating charges	53.44	29.93	12.08
Distributions	(1.59)	(2.04)	(1.52)
Retained distributions	1.59	2.04	1.52
Closing NAV	238.94	185.50	155.57
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.17	0.39	0.15
Dilution adjustments ^[a]	(0.06)	(0.07)	(0.06)
Total direct portfolio transaction costs	0.11	0.32	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.18	1.19	1.19
Return after operating charges	+28.81	+19.24	+8.42
Historic yield	0.66	1.09	0.97
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	225	197	191
Closing NAV percentage of total fund NAV (%)	0.13	0.14	0.12
Number of shares	86,793	90,000	90,000
Highest share price (UK p)	240.02	189.02	162.90
Lowest share price (UK p)	184.46	145.30	125.54

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	325.20	275.78	256.91
Return before operating charges and after direct portfolio transaction costs	97.81	56.34	24.70
Operating charges	(6.21)	(4.91)	(4.44)
Return after operating charges	91.60	51.43	20.26
Distributions	(7.28)	(2.01)	(1.39)
Closing NAV	409.52	325.20	275.78
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.29	0.69	0.27
Dilution adjustments ^[a]	(0.11)	(0.13)	(0.12)
Total direct portfolio transaction costs	0.18	0.56	0.15
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+28.17	+18.65	+7.89
Historic yield ^[c]	1.78	0.61	0.50
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (€'000)	3,999	3,650	3,922
Closing NAV percentage of total fund NAV (%)	2.21	2.60	2.38
Number of shares	899,299	951,988	1,042,491
Highest share price (UK p)	418.70	333.48	290.60
Lowest share price (UK p)	323.33	257.01	224.60

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	341.52	287.85	266.83
Return before operating charges and after direct portfolio transaction costs	102.72	58.79	25.62
Operating charges	(6.51)	(5.12)	(4.60)
Return after operating charges	96.21	53.67	21.02
Distributions	(0.85)	(2.09)	(1.47)
Retained distributions	0.85	2.09	1.47
Closing NAV	437.73	341.52	287.85
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.31	0.72	0.28
Dilution adjustments ^[a]	(0.12)	(0.14)	(0.12)
Total direct portfolio transaction costs	0.19	0.58	0.16
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+28.17	+18.65	+7.88
Historic yield	0.19	0.61	0.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	1,707	2,032	2,400
Closing NAV percentage of total fund NAV (%)	0.94	1.45	1.45
Number of shares	359,007	504,507	611,019
Highest share price (UK p)	439.69	348.07	301.78
Lowest share price (UK p)	339.54	268.26	233.30

US dollar Class 'A' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,037.49	1,024.48	1,023.65
Return before operating charges and after direct portfolio transaction costs	285.24	30.60	18.06
Operating charges	(19.66)	(17.59)	(17.23)
Return after operating charges	265.58	13.01	0.83
Distributions	(2.54)	(6.22)	(4.25)
Retained distributions	2.54	6.22	4.25
Closing NAV	1,303.07	1,037.49	1,024.48
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.93	2.47	1.03
Dilution adjustments ^[a]	(0.35)	(0.47)	(0.44)
Total direct portfolio transaction costs	0.58	2.00	0.59
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	1.68	1.69	1.67
Return after operating charges	+25.60	+1.27	+0.08
Historic yield	0.19	0.59	0.42
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	777	139	48
Closing NAV percentage of total fund NAV (%)	0.43	0.10	0.03
Number of shares	70,679	14,938	5,300
Highest share price (US ¢)	1,325.32	1,084.49	1,082.94
Lowest share price (US ¢)	995.35	895.29	862.37

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Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 31 August	2017	2016	2015
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,054.09	1,032.75	1,024.12
Return before operating charges and after direct portfolio transaction costs	291.33	30.67	17.30
Operating charges	(11.27)	(9.33)	(8.67)
Return after operating charges	280.06	21.34	8.63
Distributions	(12.20)	(14.26)	(11.72)
Retained distributions	12.20	14.26	11.72
Closing NAV	1,334.15	1,054.09	1,032.75
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.97	2.52	0.89
Dilution adjustments ^[a]	(0.36)	(0.48)	(0.38)
Total direct portfolio transaction costs	0.61	2.04	0.51
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.20	0.06
Operating charges	0.93	0.91	0.88
Return after operating charges	+26.57	+2.07	+0.84
Historic yield	0.91	1.33	1.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	13,884	5	4
Closing NAV percentage of total fund NAV (%)	7.68	0.00	0.00
Number of shares	1,234,000	500	500
Highest share price (US ¢)	1,356.18	1,099.90	1,091.10
Lowest share price (US ¢)	1,013.22	905.56	863.68

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		€'000	€'000	€'000	€'000
Income					
Net capital gains / (losses)	3		24,430		1,509
Revenue	5	3,121		3,607	
Expenses	6	(2,499)		(2,414)	
Net revenue / (expense) before taxation		622		1,193	
Taxation	7	(151)		(201)	
Net revenue / (expense) after taxation			471		992
Total return before distributions			24,901		2,501
Distributions	8		(2,109)		(992)
Change in net assets attributable to shareholders from investment activities			22,792		1,509

Statement of change in net assets attributable to shareholders

for the year to 31 August		2017		2016	
		€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders					
			140,323		164,977
Amounts received on issue of shares	31,002			26,366	
Amounts paid on cancellation of shares	(13,836)			(53,013)	
			17,166		(26,647)
Dilution adjustments			101		147
Change in net assets attributable to shareholders from investment activities (see above)			22,792		1,509
Retained distributions on Accumulation shares			313		336
Unclaimed distributions			0		1
Closing net assets attributable to shareholders			180,695		140,323

Balance sheet

as at 31 August	Note	2017	2016
		€'000	€'000
Assets			
Fixed assets			
Investments		182,078	140,468
Current assets			
Debtors	9	839	527
Cash and bank balances	10	116	112
Total assets		183,033	141,107
Liabilities			
Creditors			
Bank overdrafts		(249)	0
Distribution payable		(1,876)	(626)
Other creditors	11	(213)	(158)
Total liabilities		(2,338)	(784)
Net assets attributable to shareholders		180,695	140,323

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's functional and presentational currency is euros as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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 31 August	2017	2016
	€'000	€'000
Non-derivative securities	24,509	1,525
Currency gains / (losses)	(73)	(5)
Transaction charges	(6)	(11)
Net capital gains / (losses)	24,430	1,509

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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 62.

for the year to 31 August	2017 €'000	% of transaction	2016 €'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	46,738		71,686	
Commissions	22	0.05	79	0.11
Taxes	71	0.15	151	0.21
Equities after transaction costs	46,831		71,916	
Other transaction types				
Corporate actions				
	0		54	
Total purchases after transaction costs	46,831		71,970	
b) Sales				
Equities				
Equities before transaction costs	35,503		95,428	
Commissions	(31)	0.09	(122)	0.13
Total sales after transaction costs	35,472		95,306	
c) Direct portfolio transaction costs				
Commissions paid				
Equities	53	0.03	201	0.14
Taxes paid				
Equities	71	0.05	151	0.10
Total direct portfolio transaction costs [a]	124	0.08	352	0.24
d) Indirect portfolio transaction costs				
Portfolio dealing spread [b]		0.25		0.28

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

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

5 Revenue

for the year to 31 August	2017 €'000	2016 €'000
Distributions from underlying funds: property income dividends	8	15
Bank interest	8	0
Dividends from equity investments: non-taxable	2,955	3,500
Dividends from equity investments: taxable	144	78
Interest distribution	6	10
Underwriting commission	0	4
Total revenue	3,121	3,607

6 Expenses

for the year to 31 August	2017 €'000	2016 €'000
Payable to the ACD or associate		
Annual management charge	2,217	2,144
Administration charge	235	223
	2,452	2,367
Payable to the Depositary or associate		
Depositary's charge (including VAT)	14	13
Other expenses		
Audit fee (including VAT)	9	10
Interest payable	2	2
Safe custody charge	22	22
	33	34
Total expenses	2,499	2,414

7 Taxation

for the year to 31 August	2017 €'000	2016 €'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	151	198
Withholding tax recoverable: written off	0	3
Deferred tax (note 7c)	0	0
Total taxation	151	201
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	622	1,193
Corporation tax at 20%	124	239
Effects of:		
Dividends from equity investments: non-taxable	(591)	(700)
Current year expenses not utilised	467	461
Withholding tax	151	198
Withholding tax recoverable: written off	0	3
Total tax charge (note 7a)	151	201
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

The fund has not recognised a deferred tax asset of €3,470,000 (2016: €3,003,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 31 August	2017		2016	
	Inc [a] €'000	Acc [b] €'000	Inc [a] €'000	Acc [b] €'000
Dividend distributions				
Final	1,876	313	626	336
Total net distributions		2,189		962
Income deducted on cancellation of shares		43		45
Income received on issue of shares		(123)		(15)
Distributions		2,109		992
Net revenue / (expense) per statement of total return				
		471		992
Expenses offset against capital				
		1,638		0
Distributions		2,109		992

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

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9 Debtors

as at 31 August	2017 €'000	2016 €'000
Amounts receivable on issues of shares	112	0
Distributions receivable	1	0
Dividends receivable	59	25
Sales awaiting settlement	244	0
VAT recoverable	0	5
Withholding tax recoverable	423	497
Total debtors	839	527

10 Cash and bank balances

as at 31 August	2017 €'000	2016 €'000
Cash held as bank balances	116	112
Total cash and bank balances	116	112

11 Other creditors

as at 31 August	2017 €'000	2016 €'000
ACD's annual management charge payable	117	88
Administration charge payable	13	9
Amounts payable on cancellation of shares	68	43
Expenses payable	15	18
Total other creditors	213	158

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	466,517	167,842	(110,754)	523,605
Class 'C' Accumulation	20,007	40,550	(42,185)	18,372
Sterling				
Class 'A' Income	21,621,923	105,887	(754,918)	20,972,892
Class 'A' Accumulation	5,685,714	1,037,062	(372,804)	6,349,972
Class 'I' Income	297,383	27,983	(31,058)	294,308
Class 'I' Accumulation	286,788	101,524	(55,431)	332,881
Class 'R' Income	62,372	10,000	(30,168)	42,204
Class 'R' Accumulation	90,000	0	(3,207)	86,793
Class 'X' Income	951,988	26,556	(79,245)	899,299
Class 'X' Accumulation	504,507	3,800	(149,300)	359,007
US dollar				
Class 'A' Accumulation	14,938	92,500	(36,759)	70,679
Class 'C' Accumulation	500	1,235,000	(1,500)	1,234,000

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

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

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 32.16% (2016: 33.42%) 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 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets 2017 €'000	Liabilities 2017 €'000	Assets 2016 €'000	Liabilities 2016 €'000
Level 1	176,234	0	139,782	0
Level 2	5,844	0	686	0
Level 3	0	0	0	0
	182,078	0	140,468	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 €8,812,000 (2016: €6,989,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by €9,035,000 (2016: €7,016,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017 €'000	2016 €'000
Currency exposure in respect of the fund		
Danish krone	6,138	5,536
Euro	87,654	79,034
Israeli shekel	3,838	2,956
Norwegian krone	3,099	2,942
Sterling	41,417	28,349
Swedish krona	10,787	8,103
Swiss franc	23,186	9,837
US dollar	4,576	3,566
Total	180,695	140,323

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	6.8429	0.0000	6.8429	18.1901

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23 Dividend distribution tables (continued)

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	30.8012	4.6840	35.4852	44.7837

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	4.0273	3.3273	7.3546	2.0275

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	0.3319	0.5280	0.8599	2.1158

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	27.1152	12.9690	40.0842	24.3079

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	17.9064	3.8050	21.7114	25.1885

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	3.1689	0.8264	3.9953	1.9776

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	1.5855	0.0000	1.5855	2.0395

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	4.8980	2.3771	7.2751	2.0063

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	0.8499	0.0000	0.8499	2.0916

US dollar Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
Final	1.6408	0.8948	2.5356	6.2190

US dollar Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
Final	1.8521	10.3490	12.2011	14.2640

M&G European Smaller Companies Fund

Financial statements and notes

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M&G Global Basics Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund is a global equity fund which invests wholly or mainly in companies operating in basic industries ('primary' and 'secondary' industries) and also in companies that service these industries. The Fund may also invest in other global equities. The sole aim of the Fund is long term capital growth.

Investment approach

The M&G Global Basics Fund employs both a top-down and bottom-up investment process. The fund managers seek to identify sectors or industries which are set to benefit from long-term structural changes or themes. This is achieved through the analysis of global macroeconomics, global demographics and government policies and spending, among other considerations. In this way, they look to avoid investing in companies operating in industries which are structurally challenged.

The bottom-up stock selection process is designed to identify well-run companies trading on attractive valuations and with sustainable growth prospects. The team has a long-term investment horizon, adopting the mentality of a business owner when buying a stock.

The portfolio is constructed in a benchmark-agnostic manner with a focus on diversification and liquidity. It is invested across the market-cap spectrum and is geographically diversified.

Risk profile

The fund invests globally in the shares of listed companies and is, therefore, subject to the price volatility of the global stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on companies operating in the basic industries ('primary' and 'secondary' industries) and also in companies that service these industries. The emphasis is on selecting those companies that are positioned to benefit from the most compelling global economic trends, driven predominantly by emerging markets.

Given its direct and indirect exposure to emerging markets, the fund 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.

However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Moreover, the fund is diversified across countries, industries and market capitalisation, which is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Global Basics Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.* However, the fund's returns in all share classes lagged the comparative index, the FTSE Global Basics Composite Index. Over the 12 months, returns from the index were 17.5%, 8.0% and 14.6% in sterling, euros and US dollars respectively.

Over five years and since launch, the fund has delivered on its sole objective of long-term capital growth.

Investment performance

The 12 months under review was a positive one for global equities. Investors seemed initially optimistic about President Trump's ability to introduce his pro-growth policies, such as cutting taxes and boosting infrastructure spending, as the S&P 500 Index hit a series of record highs, taking other markets along with it. This was despite three quarter-point interest rate hikes over the period.

In Japan, shares ended higher as well, with the currency having a big impact on market sentiment: a weaker yen can increase the profitability of Japanese exporters, which had the effect of boosting share prices. Good news on the economy was also helpful. In the second quarter of 2017, the economy recorded its sixth consecutive quarter of growth – the longest unbroken stretch in more than a decade.

In Europe, economic data remained positive and company earnings continued to improve throughout the review period. The election of Emmanuel Macron in June 2017 as the president of France was also well received by investors as Mr Macron is widely seen as business-friendly. All of this provided a tailwind for European stockmarkets.

Meanwhile, across the English Channel, Prime Minister Theresa May called a snap election in June in a surprise move designed to give her an increased majority ahead of Brexit negotiations. Instead, the UK electorate responded by wiping out the slim majority she had commanded before the election.

M&G Global Basics Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

For most of the review period, the pace was set by technology companies, whose shares were supported by some very strong results. Financial shares were also in favour, buoyed by the prospect of less regulation in the US and a strengthening economy in Europe. Conversely, defensive sectors (that is, sectors that tend to remain more stable throughout the economic cycle), such as consumer goods, healthcare, utilities and telecommunication services lagged the broader market. Energy shares were also a notable underperformer.

The fund holds stocks in the healthcare and technology sectors, although neither sector is in the fund's composite index. During the review period, holdings in both sectors contributed positively to relative returns.

Hutchison China MediTech has become the first China-based biotechnology company to take a drug from discovery to production. Fruquintinib – which has been developed alongside US pharmaceutical giant Eli Lilly – increases the chances of overall survival for colorectal cancer patients who had previously been treated with two rounds of chemotherapy.

Another contributor, Australian-based biotechnology company, Starpharma recently posted successful results in advanced clinical trials of its lead product, VivaGel. The product showed sustained benefits for patients three months after their initial treatment.

Meanwhile, in technology, US software giant Microsoft's share price soared to a record high during the review period as sales and earnings topped analysts' expectations. Revenue from the technology giant's cloud-based services grew strongly, even as demand for PCs remained in the doldrums and the company's mobile phone efforts collapsed.

In materials, BHP Billiton and Dominion Diamond also added value. Investor optimism surrounding the arrival of a new chairman at global miner, BHP Billiton, and hopes that he might be able to improve the performance of the company's mining operations drove the share price upwards. Some investors are also calling for BHP to spin off its oil assets, which would most likely create additional value for shareholders.

Shares in Dominion Diamond rallied on news the Canadian miner had been the subject of a takeover offer. Washington Companies, a group of privately held North American mining, industrial and transportation businesses, made an all-cash offer for Dominion, at a level which represented a substantial premium to Dominion's share price prior to the announcement.

Conversely, another materials stock, Symrise, detracted. Symrise's share price declined as investors downgraded earnings estimates on fears that the company will suffer from increased cost pressures, as commodity prices have firmed. Specialist chemicals company Symrise is a global supplier of fragrances, flavourings, ingredients for cosmetics and nutritional supplements. Its products are widely used by food manufacturers and pharmaceutical companies.

In general, consumer staples stocks lagged the broader market over the review period and holdings in Japan Tobacco and personal care company PZ Cussons hurt performance. There were exceptions, such as Japanese brewer Kirin. In October 2016, the company announced it was acquiring a minority stake in New York craft beer company, Brooklyn Brewery. Craft beer volumes in the US are

growing quickly and the news was received well by investors. The sale of Kirin's Brazilian brewery business was also taken positively and more recently, the company raised profit guidance for the current financial year.

Similarly, energy shares were out of favour and a holding in Core Laboratories, one of the largest service providers of core and fluid analysis in the petroleum industry, detracted. Furthermore, shares in the company were hit by negative comments from a prominent hedge fund investor.

The fund's underweight position in industrials – which led the broader market – also detracted; as did a holding in GEA. Shares in the German-based industrial company GEA Group, one of the largest suppliers of process technology for the food industry, fell sharply after the company cut sales and profit estimates for the third quarter.

Conversely, shares in Rockwell Automation, a US manufacturer of automation software and equipment, rallied after quarterly earnings topped analysts' estimates. The company also pointed to continued strong demand for its automation products used in car and consumer goods factories.

Investment activities

The M&G Global Basics Fund's investment process is a blend of macroeconomic analysis to identify the industries which are set to benefit from changes to the structure of economies that happen over time, together with in-depth analysis of company fundamentals.

At present, we are focusing on four main themes: health (which includes the challenges of an ageing population), security (particularly cyber and food security), infrastructure (including rail transport) and the environment (especially the increasing requirement for energy efficiency and reducing pollution).

During the review period, we initiated a position in Roche, one of the principal players in oncology, with a strong focus on research and development. Shares in the Swiss-based pharmaceuticals company displayed some weakness, which allowed us to establish a position at an attractive price.

Another health-related company we invested in was Welltower, a real estate investment trust. Welltower is a US company providing premium long-term assisted care for the elderly in the US, Canada and the UK.

We also initiated a holding in Raytheon, a US-based global defence company which has exposure to cyber security. Raytheon is a pure play on defence and government-related end markets, with two thirds of its business coming from the US and one third from the rest of the world. For the first time in seven years, both the US and international spending on key projects is rising, and with its exposure to missile defence and precision weaponry, Raytheon should benefit from this trend.

Elsewhere, we established a holding in Alphabet (parent company of Google) as we favour the company for its ability to gather and manage large volumes of data. This should help the firm compete in multiple disciplines, including map technology (autonomous vehicles) and 'cloud' computing.

Conversely, we closed the position in Umicore, a global materials technology and recycling group, as we believe its valuation has become 'stretched'. We also took advantage of the recent share price strength in luxury hotels owner and operator Hong Kong & Shanghai Hotels to exit the holding.

M&G Global Basics Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

Towards the end of the review period, we initiated positions in Suncor Energy and Schlumberger and closed positions in LafargeHolcim and Airbus. The purchases of Suncor and Schlumberger are examples of good quality names in an area of the market – the energy sector – which has materially underperformed in recent months.

We believe Suncor is a relatively safe, low-risk, integrated oil & gas company, which has already invested heavily in its production facilities and has low gearing. Meanwhile, Schlumberger provides a range of services to exploration and production companies globally.

LafargeHolcim, a building materials firm, was a small position in the portfolio and has performed strongly as the benefits of the merger between Lafarge and Holcim were realised. We felt it was a good time to sell European aerospace and defence company Airbus, as the shares have enjoyed a good run over the past 12 months. At the same time, geopolitical tensions appear to be increasing.

Outlook

We remain concerned about the investment backdrop faced by investors, particularly geopolitical and economic risks. Specifically, stockmarkets have experienced some short-term volatility as tensions between North Korea and the US have escalated. Elsewhere, in the UK, there are a number of uncertainties around 'Brexit' and in Europe there are concerns over the health of some of the banks.

In the US, we are scrutinising the path of the economy, in particular, the pace of growth and implications for inflation and the direction of interest rates. During the review period, there were three interest rate rises of a quarter of a point (in December 2016, and March and June 2017) and we are awaiting the Fed's decision on additional interest rate rises and the impact this will have on financial markets. Regardless, many company valuations look stretched in our view.

In particular, highly leveraged companies may struggle to roll over their debt as it becomes due, and as rising interest rates increase their borrowing costs. Companies that have increased borrowings to pay generous dividends or enhance earnings per share through buying back shares may be especially vulnerable.

However, we note that European equities appear more attractively valued than some other markets, which may provide support and manufacturers are benefiting from the continued growth of the US economy.

Jamie Horvat & Randeep Somel

Co-fund managers

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

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

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

Investments

Portfolio statement

as at 31 August Holding	2017 \$'000	2017 %	2016 %
Belgium	0	0.00	1.95
Eire	98,661	3.68	3.69
1,076,534 Kerry Group	98,661	3.68	
France	49,179	1.83	2.58 ^[a]
193,556 Imerys	16,919	0.63	
476,464 Publicis Groupe	32,260	1.20	
Germany	288,333	10.76	8.34
912,575 GEA Group	40,026	1.49	
160,000 Linde	30,678	1.15	
874,653 Porsche Pref.	49,357	1.84	
628,356 Siemens	81,995	3.06	
1,179,474 Symrise	86,277	3.22	
Netherlands	85,552	3.19	3.20 ^[a]
400,000 Core Laboratories	34,972	1.30	
450,000 NXP Semiconductors	50,580	1.89	
Spain	30,652	1.14	0.87
500,000 Amadeus IT Holdings	30,652	1.14	
Switzerland	95,329	3.56	0.31
380,134 Roche Holding 'Genussscheine'	95,329	3.56	
United Kingdom	455,323	16.99	15.88
2,800,000 BHP Billiton	53,016	1.98	
7,436,184 BP	42,278	1.58	
10,420,741 G4S	38,106	1.42	
1,850,000 Genus	44,140	1.65	
15,141,950 Hochschild Mining	54,162	2.02	
1,100,000 Hutchison China MediTech ^[b]	52,830	1.97	
903,724 MD Medical Group GDR	9,308	0.35	
19,361,712 PZ Cussons	85,560	3.19	
1,310,907 Unilever	75,923	2.83	
Australia	123,143	4.59	5.93
5,085,696 Ansell	87,486	3.26	
326,423 Erin Barr (formerly Australian Zircon) ^[c]	0	0.00	
45,186,512 Starpharma	35,657	1.33	
Hong Kong	34,807	1.30	2.77
5,851,000 BYD	34,807	1.30	
Japan	172,097	6.42	5.27
932,400 Honda Motor	25,968	0.97	
1,615,800 Japan Tobacco	54,966	2.05	
4,041,600 Kirin Holdings	91,163	3.40	
Singapore	18,504	0.69	0.88
13,238,800 Delfi (formerly Petra Foods)	18,504	0.69	
United Arab Emirates	63,292	2.36	1.97
2,857,429 DP World	63,292	2.36	
Canada	124,769	4.66	3.42
1,088,988 Barrick Gold	19,318	0.72	
1,286,151 Dominion Diamond	18,073	0.68	
373,173 Franco Nevada	30,149	1.13	
3,310,661 Iamgold Corporation	21,231	0.79	
591,928 Osisko Gold Royalties	8,037	0.30	
112,582 Osisko Gold Royalties wts. 2019	254	0.01	
184,532 Stella-Jones	6,958	0.26	
666,809 Suncor Energy	20,749	0.77	

M&G Global Basics Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 31 August	2017	2017	2016
Holding	\$'000	%	%
United States	998,114	37.24	36.94
1,535,401 Alamos Gold	12,467	0.46	
32,180 Alphabet	29,913	1.12	
202,715 Becton Dickinson	40,113	1.50	
369,190 Booz Allen Hamilton	12,512	0.47	
79,545 BrightHouse Financial	4,541	0.17	
644,224 Bunge	47,698	1.78	
530,685 Cal Maine Foods	19,211	0.72	
476,490 Honeywell International	65,779	2.45	
253,985 Jacobs Engineering Group	13,649	0.51	
530,609 Johnson & Johnson	69,526	2.59	
215,747 Matthews International	12,848	0.48	
875,000 MetLife	41,169	1.54	
1,907,284 Microsoft	141,139	5.27	
1,100,000 National Oilwell Varco	33,484	1.25	
674,462 Newmont Mining	25,656	0.96	
281,602 Raytheon	51,294	1.91	
305,738 ResMed	23,111	0.86	
466,567 Rockwell Automation	75,864	2.83	
303,692 Schlumberger	19,242	0.72	
733,130 Southern Copper Corporation	29,516	1.10	
608,862 The Scotts Miracle-Gro Company	57,702	2.15	
91,522 Thermo Fisher Scientific	16,746	0.62	
200,000 Time Warner	20,272	0.76	
244,983 United Parcel Service	28,170	1.05	
548,124 Welltower REIT	39,734	1.48	
600,722 Yum China Holdings	21,109	0.79	
600,722 Yum! Brands	45,649	1.70	
Mexico	28,433	1.06	0.00
8,506,681 Grupo Mexico	28,433	1.06	
Portfolio of investments	2,666,188	99.47	94.00
Eire 'AAA' rated money market funds ^[d]	5,678	0.21	0.56
4,410,000 Northern Trust Global Fund - Sterling	5,678	0.21	
Total portfolio (notes 2c & 2d on page 6)	2,671,866	99.68	94.56
Net other assets / (liabilities)	8,601	0.32	5.44
Net assets attributable to shareholders	2,680,467	100.00	100.00

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

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

[b] AIM quoted.

[c] Unlisted.

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

Top ten portfolio transactions

for the year to 31 August 2017

	\$'000
Largest purchases	
Roche Holding 'Genussscheine'	90,349
Siemens	79,167
BYD	38,926
Welltower REIT	38,816
Raytheon	38,687
Honda Motor	26,852
Southern Copper	26,320
Alphabet	25,671
Grupo Mexico	25,425
Suncor Energy	20,475
Other purchases	126,305
Total purchases	536,993
Largest sales	
United Technologies	109,655
The Hongkong and Shanghai Hotels	82,580
Umicore	53,519
United Parcel Service	46,537
Johnson & Johnson	45,198
Elizabeth Arden	42,708
Ansell	33,394
Symrise	24,258
The Scotts Miracle-Gro Company	23,213
Dominion Diamond	22,381
Other sales	210,175
Total sales	693,618

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

M&G Global Basics Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 \$'000	2016 \$'000	2015 \$'000
Fund net asset value (NAV)	2,680,467	2,675,498	3,084,200

Performance since launch

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



When the fund's objective changed, the comparable index of the fund also changed, and to make a fair comparison the chart above shows performance since the fund's change of objective.

The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Global Basics Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+5.9	+5.8	+4.9	+7.3 ^[c]
Class 'C'	+7.0	+6.9	+5.9	+8.3 ^[c]
Sterling ^[d]				
Class 'A'	+16.2	+11.6	+8.4	+7.9 ^[e]
Class 'I'	+17.1	+12.5	+9.2	+9.5 ^[f]
Class 'R'	+16.8	+12.2	+8.9	+9.2 ^[f]
Class 'X'	+16.2	+11.6	+8.4	+15.0 ^[g]
US dollar ^[b]				
Class 'A'	+13.2	+2.5	+3.7	+2.4 ^[h]
Class 'C'	+14.3	+3.5	+4.8	+3.4 ^[h]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] Price to price with income reinvested.

^[e] 28 February 1973, the end of the initial offer period of the predecessor unit trust.

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

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

^[h] 9 March 2007, 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.

M&G Global Basics Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.02	0.06	0.07	0.05
Taxes	0.01	0.01	0.01	0.01
Costs before dilution adjustments	0.03	0.07	0.08	0.06
Dilution adjustments ^[c]	(0.01)	(0.02)	(0.03)	(0.02)
Total direct portfolio transaction costs	0.02	0.05	0.05	0.04
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.27	0.22	0.30	0.26

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	2,824.63	2,518.66	2,541.54
Return before operating charges and after direct portfolio transaction costs	209.47	362.58	38.34
Operating charges	(57.25)	(49.99)	(52.29)
Return after operating charges	152.22	312.59	(13.95)
Distributions	(54.84)	(6.62)	(8.93)
Closing NAV	2,922.01	2,824.63	2,518.66
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.99	1.73	2.13
Dilution adjustments ^[a]	(0.26)	(0.59)	(0.82)
Total direct portfolio transaction costs	0.73	1.14	1.31
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.92	1.92	1.93
Return after operating charges	+5.39	+12.41	-0.55
Historic yield ^[c]	1.85	0.23	0.34
Effect on yield of charges offset against capital	1.90	0.00	0.00
Other information			
Closing NAV (\$'000)	4,990	3,857	2,750
Closing NAV percentage of total fund NAV (%)	0.19	0.14	0.09
Number of shares	144,009	122,547	96,805
Highest share price (Euro ¢)	3,145.52	2,871.59	3,031.34
Lowest share price (Euro ¢)	2,720.14	2,251.56	2,341.68

M&G Global Basics Fund

Financial highlights

Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,850.14	2,535.39	2,554.61
Return before operating charges and after direct portfolio transaction costs	211.27	364.89	33.22
Operating charges	(57.52)	(50.14)	(52.44)
Return after operating charges	153.75	314.75	(19.22)
Distributions	(2.55)	(6.63)	(8.98)
Retained distributions	2.55	6.63	8.98
Closing NAV	3,003.89	2,850.14	2,535.39

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.99	1.73	2.13
Dilution adjustments ^[a]	(0.26)	(0.59)	(0.82)
Total direct portfolio transaction costs	0.73	1.14	1.31

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.92	1.92	1.93
Return after operating charges	+5.39	+12.41	-0.75
Historic yield	0.09	0.23	0.34
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	1,816,848	1,723,401	1,663,773
Closing NAV percentage of total fund NAV (%)	67.78	64.41	53.95
Number of shares	51,008,408	54,269,623	58,178,164
Highest share price (Euro ¢)	3,173.93	2,890.75	3,040.77
Lowest share price (Euro ¢)	2,744.71	2,266.60	2,353.74

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	3,165.27	2,820.48	2,855.16
Return before operating charges and after direct portfolio transaction costs	235.29	407.44	34.79
Operating charges	(30.97)	(26.45)	(27.80)
Return after operating charges	204.32	380.99	6.99
Distributions	(61.84)	(36.20)	(41.67)
Closing NAV	3,307.75	3,165.27	2,820.48

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.11	1.87	2.52
Dilution adjustments ^[a]	(0.29)	(0.63)	(0.97)
Total direct portfolio transaction costs	0.82	1.24	1.55

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.92	0.94	0.91
Return after operating charges	+6.46	+13.51	+0.24
Historic yield ^[c]	1.84	1.13	1.49
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (\$'000)	1,290	28	31
Closing NAV percentage of total fund NAV (%)	0.05	0.00	0.00
Number of shares	32,892	792	978
Highest share price (Euro ¢)	3,546.63	3,245.64	3,419.69
Lowest share price (Euro ¢)	3,054.11	2,532.06	2,633.92

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	3,280.53	2,889.31	2,882.22
Return before operating charges and after direct portfolio transaction costs	243.52	418.62	35.67
Operating charges	(31.86)	(27.40)	(28.58)
Return after operating charges	211.66	391.22	7.09
Distributions	(35.10)	(37.16)	(42.05)
Retained distributions	35.10	37.16	42.05
Closing NAV	3,492.19	3,280.53	2,889.31

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.15	1.97	2.42
Dilution adjustments ^[a]	(0.30)	(0.67)	(0.93)
Total direct portfolio transaction costs	0.85	1.30	1.49

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.92	0.92	0.91
Return after operating charges	+6.45	+13.54	+0.25
Historic yield	0.99	1.12	1.46
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	14,125	15,885	33,040
Closing NAV percentage of total fund NAV (%)	0.53	0.59	1.07
Number of shares	341,119	434,591	1,013,811
Highest share price (Euro ¢)	3,675.70	3,325.82	3,452.14
Lowest share price (Euro ¢)	3,165.26	2,594.59	2,659.09

Sterling Class 'A' Income share performance

The share class was launched on 28 February 1973.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	776.01	597.91	655.77
Return before operating charges and after direct portfolio transaction costs	128.12	192.31	(43.09)
Operating charges	(13.91)	(10.77)	(11.02)
Return after operating charges	114.21	181.54	(54.11)
Distributions	(16.38)	(3.44)	(3.75)
Closing NAV	873.84	776.01	597.91

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.28	0.43	0.51
Dilution adjustments ^[a]	(0.07)	(0.14)	(0.20)
Total direct portfolio transaction costs	0.21	0.29	0.31

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.67	1.68	1.68
Return after operating charges	+14.72	+30.36	-8.25
Historic yield ^[c]	1.85	0.44	0.62
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (\$'000)	93,968	112,998	334,368
Closing NAV percentage of total fund NAV (%)	3.51	4.22	10.84
Number of shares	8,351,587	11,084,743	36,342,136
Highest share price (UK p)	894.27	807.24	706.13
Lowest share price (UK p)	755.91	566.54	575.15

M&G Global Basics Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 28 February 1973.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,184.36	908.28	989.92
Return before operating charges and after direct portfolio transaction costs	195.57	292.46	(65.06)
Operating charges	(21.26)	(16.38)	(16.58)
Return after operating charges	174.31	276.08	(81.64)
Distributions	(4.29)	(5.41)	(5.26)
Retained distributions	4.29	5.41	5.26
Closing NAV	1,358.67	1,184.36	908.28

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.42	0.65	0.77
Dilution adjustments ^[a]	(0.11)	(0.22)	(0.30)
Total direct portfolio transaction costs	0.31	0.43	0.47

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.67	1.67	1.68
Return after operating charges	+14.72	+30.40	-8.25
Historic yield	0.31	0.46	0.57
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	271,142	287,167	521,041
Closing NAV percentage of total fund NAV (%)	10.12	10.73	16.89
Number of shares	15,498,977	18,457,412	37,279,528
Highest share price (UK p)	1,364.86	1,226.59	1,065.98
Lowest share price (UK p)	1,153.67	860.56	868.26

Sterling Class 'T' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,289.26	992.84	1,089.93
Return before operating charges and after direct portfolio transaction costs	213.70	321.31	(72.26)
Operating charges	(12.81)	(9.96)	(10.16)
Return after operating charges	200.89	311.35	(82.42)
Distributions	(27.33)	(14.93)	(14.67)
Closing NAV	1,462.82	1,289.26	992.84

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.46	0.72	0.86
Dilution adjustments ^[a]	(0.12)	(0.24)	(0.33)
Total direct portfolio transaction costs	0.34	0.48	0.53

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.92	0.91	0.93
Return after operating charges	+15.58	+31.36	-7.56
Historic yield ^[c]	1.84	1.16	1.48
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (\$'000)	49,792	52,829	39,084
Closing NAV percentage of total fund NAV (%)	1.86	1.98	1.27
Number of shares	2,643,572	3,119,247	2,558,220
Highest share price (UK p)	1,496.94	1,350.29	1,179.08
Lowest share price (UK p)	1,256.20	941.22	962.98

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,358.59	1,034.05	1,118.54
Return before operating charges and after direct portfolio transaction costs	225.15	334.91	(74.06)
Operating charges	(13.48)	(10.37)	(10.43)
Return after operating charges	211.67	324.54	(84.49)
Distributions	(15.79)	(15.55)	(15.07)
Retained distributions	15.79	15.55	15.07
Closing NAV	1,570.26	1,358.59	1,034.05

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.48	0.75	0.88
Dilution adjustments ^[a]	(0.13)	(0.26)	(0.34)
Total direct portfolio transaction costs	0.35	0.49	0.54

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.92	0.91	0.93
Return after operating charges	+15.58	+31.39	-7.55
Historic yield	0.99	1.14	1.46
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	258,543	269,001	187,541
Closing NAV percentage of total fund NAV (%)	9.64	10.06	6.08
Number of shares	12,787,325	15,072,530	11,786,175
Highest share price (UK p)	1,577.42	1,406.61	1,210.14
Lowest share price (UK p)	1,323.72	980.30	988.35

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	129.01	99.37	109.06
Return before operating charges and after direct portfolio transaction costs	21.36	32.11	(7.23)
Operating charges	(1.62)	(1.27)	(1.28)
Return after operating charges	19.74	30.84	(8.51)
Distributions	(2.73)	(1.20)	(1.18)
Closing NAV	146.02	129.01	99.37

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.07	0.09
Dilution adjustments ^[a]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.04	0.05	0.06

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.17	1.16	1.18
Return after operating charges	+15.30	+31.04	-7.80
Historic yield ^[c]	1.84	0.93	1.19
Effect on yield of charges offset against capital	1.15	0.00	0.00

Other information

Closing NAV (\$'000)	654	716	280
Closing NAV percentage of total fund NAV (%)	0.02	0.03	0.01
Number of shares	348,053	422,422	182,723
Highest share price (UK p)	149.42	134.82	117.78
Lowest share price (UK p)	125.69	94.19	96.11

M&G Global Basics Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	134.50	102.63	111.30
Return before operating charges and after direct portfolio transaction costs	22.27	33.56	(7.36)
Operating charges	(1.70)	(1.69)	(1.31)
Return after operating charges	20.57	31.87	(8.67)
Distributions	(1.20)	(1.24)	(1.21)
Retained distributions	1.20	1.24	1.21
Closing NAV	155.07	134.50	102.63

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.10	0.09
Dilution adjustments ^[a]	(0.01)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.04	0.07	0.06

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.17	1.17	1.18
Return after operating charges	+15.29	+31.05	-7.79
Historic yield	0.77	0.92	1.18
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	222	167	120
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.00
Number of shares	110,924	94,487	75,856
Highest share price (UK p)	155.78	139.27	120.22
Lowest share price (UK p)	131.04	97.27	98.10

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	778.58	599.87	657.87
Return before operating charges and after direct portfolio transaction costs	128.55	193.16	(43.26)
Operating charges	(13.98)	(10.85)	(11.04)
Return after operating charges	114.57	182.31	(54.30)
Distributions	(16.43)	(3.60)	(3.70)
Closing NAV	876.72	778.58	599.87

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.28	0.43	0.52
Dilution adjustments ^[a]	(0.07)	(0.15)	(0.20)
Total direct portfolio transaction costs	0.21	0.28	0.32

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.67	1.67	1.68
Return after operating charges	+14.72	+30.39	-8.25
Historic yield ^[c]	1.85	0.46	0.61
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (\$'000)	49,153	51,020	62,311
Closing NAV percentage of total fund NAV (%)	1.83	1.91	2.02
Number of shares	4,354,184	4,988,458	6,750,337
Highest share price (UK p)	897.24	810.07	708.37
Lowest share price (UK p)	758.41	568.41	576.98

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,172.74	899.35	980.19
Return before operating charges and after direct portfolio transaction costs	193.63	289.64	(64.43)
Operating charges	(21.04)	(16.25)	(16.41)
Return after operating charges	172.59	273.39	(80.84)
Distributions	(4.25)	(5.39)	(5.27)
Retained distributions	4.25	5.39	5.27
Closing NAV	1,345.33	1,172.74	899.35

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.42	0.64	0.77
Dilution adjustments ^[a]	(0.11)	(0.22)	(0.30)
Total direct portfolio transaction costs	0.31	0.42	0.47

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.67	1.67	1.68
Return after operating charges	+14.72	+30.40	-8.25
Historic yield	0.31	0.46	0.58
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	94,910	103,652	146,195
Closing NAV percentage of total fund NAV (%)	3.54	3.87	4.74
Number of shares	5,479,002	6,728,108	10,563,951
Highest share price (UK p)	1,351.47	1,214.56	1,055.50
Lowest share price (UK p)	1,142.35	852.09	859.72

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,119.41	1,010.49	1,191.51
Return before operating charges and after direct portfolio transaction costs	158.81	130.04	(155.80)
Operating charges	(22.64)	(19.18)	(21.33)
Return after operating charges	136.17	110.86	(177.13)
Distributions	(23.14)	(1.94)	(3.89)
Closing NAV	1,232.44	1,119.41	1,010.49

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.39	0.66	0.79
Dilution adjustments ^[a]	(0.10)	(0.22)	(0.30)
Total direct portfolio transaction costs	0.29	0.44	0.49

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.92	1.93	1.90
Return after operating charges	+12.16	+10.97	-14.87
Historic yield ^[c]	1.84	0.17	0.38
Effect on yield of charges offset against capital	1.90	0.00	0.00

Other information

Closing NAV (\$'000)	108	36	5
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	8,774	3,215	431
Highest share price (US ¢)	1,265.15	1,147.93	1,194.36
Lowest share price (US ¢)	1,065.61	897.50	989.52

M&G Global Basics Fund

Financial highlights

Specific share class performance

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,126.12	1,014.12	1,194.76
Return before operating charges and after direct portfolio transaction costs	158.94	131.74	(159.07)
Operating charges	(22.00)	(19.74)	(21.57)
Return after operating charges	136.94	112.00	(180.64)
Distributions	(1.07)	(2.62)	(3.90)
Retained distributions	1.07	2.62	3.90
Closing NAV	1,263.06	1,126.12	1,014.12

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.38	0.68	0.88
Dilution adjustments ^[a]	(0.10)	(0.23)	(0.34)
Total direct portfolio transaction costs	0.28	0.45	0.54

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.92	1.92	1.90
Return after operating charges	+12.16	+11.04	-15.12
Historic yield	0.09	0.23	0.33
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	24,681	49,379	51,045
Closing NAV percentage of total fund NAV (%)	0.92	1.85	1.66
Number of shares	1,954,068	4,384,887	5,033,401
Highest share price (US ¢)	1,272.71	1,152.82	1,197.29
Lowest share price (US ¢)	1,071.99	901.35	989.30

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,191.41	1,074.84	1,272.22
Return before operating charges and after direct portfolio transaction costs	169.55	140.37	(170.46)
Operating charges	(11.26)	(9.95)	(10.71)
Return after operating charges	158.29	130.42	(181.17)
Distributions	(24.88)	(13.85)	(16.21)
Closing NAV	1,324.82	1,191.41	1,074.84

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.40	0.77	0.84
Dilution adjustments ^[a]	(0.10)	(0.26)	(0.33)
Total direct portfolio transaction costs	0.30	0.51	0.51

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.91	0.91	0.89
Return after operating charges	+13.29	+12.13	-14.24
Historic yield ^[c]	1.84	1.15	1.53
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (\$'000)	5	5	5
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	401	401	401
Highest share price (US ¢)	1,359.12	1,233.31	1,277.24
Lowest share price (US ¢)	1,136.53	958.78	1,064.16

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,235.00	1,101.07	1,284.26
Return before operating charges and after direct portfolio transaction costs	170.87	144.20	(171.98)
Operating charges	(11.69)	(10.27)	(11.21)
Return after operating charges	159.18	133.93	(183.19)
Distributions	(14.04)	(14.12)	(16.36)
Retained distributions	14.04	14.12	16.36
Closing NAV	1,394.18	1,235.00	1,101.07

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.42	0.74	0.95
Dilution adjustments ^[a]	(0.11)	(0.25)	(0.37)
Total direct portfolio transaction costs	0.31	0.49	0.58

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.92	0.92	0.89
Return after operating charges	+12.89	+12.16	-14.26
Historic yield	0.99	1.13	1.48
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	36	5,357	42,611
Closing NAV percentage of total fund NAV (%)	0.00	0.20	1.38
Number of shares	2,544	433,770	3,869,896
Highest share price (US ¢)	1,408.97	1,263.76	1,289.02
Lowest share price (US ¢)	1,178.19	982.44	1,073.98

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

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

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

M&G Global Basics Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 August	Note	2017		2016	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		298,833		260,344
Revenue	5	59,134		64,604	
Expenses	6	(45,734)		(46,544)	
Net revenue / (expense) before taxation		13,400		18,060	
Taxation	7	(6,678)		(5,396)	
Net revenue / (expense) after taxation			6,722		12,664
Total return before distributions			305,555		273,008
Distributions	8		(9,715)		(11,517)
Change in net assets attributable to shareholders from investment activities			295,840		261,491

Statement of change in net assets attributable to shareholders

for the year to 31 August		2017		2016	
		\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders			2,675,498		3,084,200
Amounts received on issue of shares		49,854		210,848	
Amounts paid on cancellation of shares		(346,671)		(891,598)	
			(296,817)		(680,750)
Dilution adjustments			482		1,324
Change in net assets attributable to shareholders from investment activities (see above)			295,840		261,491
Retained distributions on Accumulation shares			5,464		9,231
Unclaimed distributions			0		2
Closing net assets attributable to shareholders			2,680,467		2,675,498

Balance sheet

as at 31 August	Note	2017	2016
		\$'000	\$'000
Assets			
Fixed assets			
Investments		2,671,866	2,529,876
Current assets			
Debtors	9	22,652	55,232
Cash and bank balances	10	369	97,706
Total assets		2,694,887	2,682,814
Creditors			
Bank overdrafts		(868)	0
Distribution payable		(3,745)	(1,365)
Other creditors	11	(9,807)	(5,951)
Total liabilities		(14,420)	(7,316)
Net assets attributable to shareholders		2,680,467	2,675,498

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's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are 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 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 31 August	2017	2016
	\$'000	\$'000
Non-derivative securities	301,634	276,943
Capital gains on US REIT	305	0
Currency gains / (losses)	(3,098)	(16,575)
Transaction charges	(8)	(24)
Net capital gains / (losses)	298,833	260,344

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 78 and 79.

for the year to 31 August	2017	% of	2016	% of
	\$'000	transaction	\$'000	transaction
a) Purchases				
Equities				
Equities before transaction costs	536,540		287,234	
Commissions	412	0.08	360	0.12
Taxes	41	0.01	0	0.00
Equities after transaction costs	536,993		287,594	
Other transaction types				
Corporate actions	0		5,393	
Total purchases after transaction costs	536,993		292,987	
b) Sales				
Equities				
Equities before transaction costs	694,030		1,034,798	
Commissions	(316)	0.05	(1,373)	0.13
Taxes	(96)	0.01	(56)	0.01
Equities after transaction costs	693,618		1,033,369	
c) Direct portfolio transaction costs				
	2017	% of	2016	% of
	\$'000	average NAV	\$'000	average NAV
Commissions paid				
Equities	728	0.02	1,733	0.06
Taxes paid				
Equities	137	0.01	56	0.01
Total direct portfolio transaction costs ^[a]	865	0.03	1,789	0.07
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread ^[b]		0.27		0.22

^[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.

M&G Global Basics Fund

Financial statements and notes

Notes to the financial statements

5 Revenue

	2017	2016
for the year to 31 August	\$'000	\$'000
Bank interest	48	51
Dividends from equity investments: non-taxable	53,598	61,038
Dividends from equity investments: taxable	4,492	1,953
Interest distributions	147	415
Interest on withholding tax previously withheld at source	849	0
Stock dividends	0	1,147
Total revenue	59,134	64,604

6 Expenses

	2017	2016
for the year to 31 August	\$'000	\$'000
Payable to the ACD or associate		
Annual management charge	41,300	42,032
Administration charge	3,934	4,046
	45,234	46,078
Payable to the Depository or associate		
Depository's charge (including VAT)	109	116
Other expenses		
Audit fee (including VAT)	11	11
Interest payable	8	8
Legal fees	0	(6)
Safe custody charge	372	345
Tax fees (including VAT)	0	1
	391	359
VAT recoverable		
Current year	0	(6)
Prior year	0	(3)
	0	(9)
Total expenses	45,734	46,544

7 Taxation

	2017	2016
for the year to 31 August	\$'000	\$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	6,678	5,396
Deferred tax (note 7c)	0	0
Total taxation	6,678	5,396
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	13,400	18,060
Corporation tax at 20%	2,680	3,612
Effects of:		
Dividends from equity investments: non-taxable	(10,720)	(12,208)
Stock dividends not taxable	0	(229)
Current year expenses not utilised	8,026	8,825
Withholding tax	6,678	5,396
Withholding tax expensed	(47)	0
Capital gains tax (US REIT)	61	0
Total tax charge (note 7a)	6,678	5,396
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 \$159,751,000 (2016: \$151,725,000) 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

	2017		2016	
for the year to 31 August	Inc ^[a]	Acc ^[b]	Inc ^[a]	Acc ^[b]
Dividend distributions	\$'000	\$'000	\$'000	\$'000
Final	3,745	5,464	1,365	9,231
Total net distributions		9,209		10,596
Income deducted on cancellation of shares		686		1,387
Income received on issue of shares		(180)		(466)
Distributions		9,715		11,517
Net revenue / (expense) per statement of total return		6,722		12,664
Expenses offset against capital		2,947		0
Stock dividends not distributed		0		(1,147)
Capital gains tax offset against capital		46		0
Distributions		9,715		11,517

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

	2017	2016
as at 31 August	\$'000	\$'000
Amounts receivable on issues of shares	936	1,615
Currency deals outstanding	3,021	0
Distributions receivable	1	11
Dividends receivable	8,979	10,091
Interest recoverable on tax previously withheld at source	0	260
Sales awaiting settlement	5,755	33,193
Withholding tax recoverable	3,960	10,062
Total debtors	22,652	55,232

10 Cash and bank balances

	2017	2016
as at 31 August	\$'000	\$'000
Cash held as bank balances	369	97,706
Total cash and bank balances	369	97,706

11 Other creditors

	2017	2016
as at 31 August	\$'000	\$'000
ACD's annual management charge payable	1,973	1,873
Administration charge payable	187	179
Amounts payable on cancellation of shares	4,527	3,800
Currency deals outstanding	3,030	0
Expenses payable	90	99
Total other creditors	9,807	5,951

12 Contingent assets, liabilities and outstanding commitments

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

M&G Global Basics Fund

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Notes to the financial statements

13 Shares in issue

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

Share class	Opening	Movements		Closing
	01.09.16	Issued	Cancelled	31.08.17
Euro				
Class 'A' Income	122,547	47,766	(26,304)	144,009
Class 'A' Accumulation	54,269,623	589,676	(3,850,891)	51,008,408
Class 'C' Income	792	32,600	(500)	32,892
Class 'C' Accumulation	434,591	237,807	(331,279)	341,119
Sterling				
Class 'A' Income	11,084,743	187,544	(2,920,700)	8,351,587
Class 'A' Accumulation	18,457,412	24,295	(2,982,730)	15,498,977
Class 'I' Income	3,119,247	472,282	(947,957)	2,643,572
Class 'I' Accumulation	15,072,530	243,947	(2,529,152)	12,787,325
Class 'R' Income	422,422	27,615	(101,984)	348,053
Class 'R' Accumulation	94,487	27,920	(11,483)	110,924
Class 'X' Income	4,988,458	25,480	(659,754)	4,354,184
Class 'X' Accumulation	6,728,108	15,439	(1,264,545)	5,479,002
US dollar				
Class 'A' Income	3,215	5,738	(179)	8,774
Class 'A' Accumulation	4,384,887	246,792	(2,677,611)	1,954,068
Class 'C' Income	401	0	0	401
Class 'C' Accumulation	433,770	5,389	(436,615)	2,544

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	1.75
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.75
Class 'C'	3.25	n/a	0.75

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

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 5.04% (2016: 4.69%) of the fund's shares.

16 Events after the balance sheet date

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

17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets	Liabilities	Assets	Liabilities
	2017 \$'000	2017 \$'000	2016 \$'000	2016 \$'000
Level 1	2,666,188	0	2,515,074	0
Level 2	5,678	0	14,802	0
Level 3	0	0	0	0
	2,671,866	0	2,529,876	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 Global Basics Fund

Financial statements and notes

Notes to the financial statements

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 \$133,309,000 (2016: \$125,754,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by \$134,023,000 (2016: \$133,775,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017 \$'000	2016 \$'000
Currency exposure in respect of the fund		
Australian dollar	123,143	167,801
Canadian dollar	75,315	35,027
Euro	471,103	485,296
Hong Kong dollar	34,807	74,022
Japanese yen	179,019	142,705
Mexican peso	28,433	0
Singapore dollar	18,623	25,148
Sterling	445,635	426,878
Swiss franc	95,622	8,393
US dollar	1,208,767	1,310,228
Total	2,680,467	2,675,498

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	31.5507	23.2869	54.8376	6.6247

Euro Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	2.5521	0.0000	2.5521	6.6275

Euro Class 'C' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	58.8391	3.0004	61.8395	36.2010

Euro Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	28.2783	6.8252	35.1035	37.1583

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	9.4461	6.9331	16.3792	3.4404

M&G Global Basics Fund

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Notes to the financial statements

23 Dividend distribution tables (continued)

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Final	3.8522	0.4392	4.2914	5.4056

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Final	11.5916	15.7407	27.3323	14.9303

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Final	8.9219	6.8671	15.7890	15.5537

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Final	1.9809	0.7501	2.7310	1.1990

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Final	1.2042	0.0000	1.2042	1.2360

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Final	12.1162	4.3182	16.4344	3.5991

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Final	3.3566	0.8935	4.2501	5.3854

US dollar Class 'A' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
Final	6.4432	16.6931	23.1363	1.9401

US dollar Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
Final	1.0710	0.0000	1.0710	2.6161

US dollar Class 'C' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
Final	24.8753	0.0000	24.8753	13.8548

US dollar Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
Final	14.0401	0.0000	14.0401	14.1236

M&G Global Leaders Fund

Authorised Corporate Director's Report

Investment objective and policy

The objective of the Fund is to maximise long term total return (the combination of income and growth of capital). The Fund invests in a wide range of global equities issued by companies that the fund manager considers to be, or have the potential to be, leading in their field in terms of improving shareholder value.

Investment approach

The fund manager selects shares in companies that he believes to be leading in their field, or have the potential to be leading in their field, in terms of improving shareholder value. Importantly, their prospects are not fully reflected in their share prices.

The approach has three core beliefs: i) management can make a big difference to the returns shareholders receive; ii) where management decide to allocate resources and capital is key – companies must concentrate resources on those business activities where they have an advantage relative to other companies and can create value; iii) the above factors are only attractive from an investment perspective if they are not yet reflected in the share price.

Stocks are selected on a bottom-up basis, that is the fund manager focuses on company fundamentals. He tends to avoid imposing top-down views, that is sector, country or currency selections do not drive stockpicking, but they will be taken into account where they impact on a particular stock or the risk profile of the broader portfolio. The fund usually holds between 50 and 80 stocks, with a typical holding period of three to five years.

Risk profile

The fund invests globally in the shares of listed companies and is, therefore, subject to the price volatility of the global stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on companies undergoing positive internal change leading to improvements in return on capital, but where the change is not yet reflected in the share price. 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 companies, which can be more unpredictable and difficult to buy and sell. Diversification across countries, 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 changed during this period. From 1 September 2016 to 30 December 2016 the risk number was 6.

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Global Leaders Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.* However, the fund's returns in all share classes lagged the comparative index, the MSCI All Countries World Index. Over the 12 months, returns from the index were 20.9%, 11.1% and 17.9% in sterling, euros and US dollars respectively.

Over five years and since launch, the fund has delivered on its investment objective of maximising long-term total return.

Investment performance

The 12 months under review was a positive one for global equities, particularly some emerging and European stockmarkets. Whilst the UK stockmarket also recorded a solid return, it was somewhat behind that of the MSCI All Countries World Index.

Initially investors seemed optimistic about President Trump's ability to introduce his pro-growth policies, such as cutting taxes and boosting infrastructure spending. However, we are still awaiting the implementation of these measures. Nevertheless, improving US and global growth drove the S&P 500 Index to a series of record highs, taking other markets along with it. This was despite three quarter-point interest rate hikes over the period.

In Japan, shares ended higher as well, with the currency having a big impact on market sentiment: a weaker yen, which can increase the profitability of Japanese exporters, had the effect of boosting share prices. Good news on the economy was also helpful. In the second quarter of 2017, the economy recorded its sixth consecutive quarter of growth – the longest unbroken stretch in more than a decade.

In Europe, economic data remained positive and company earnings continued to improve throughout the review period. The election of Emmanuel Macron in June 2017 as the president of France was also well received by investors, as Mr Macron is widely seen as business-friendly. All of this provided a tailwind for European stockmarkets and the euro, as we observe growth without inflation.

M&G Global Leaders Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Meanwhile, across the English Channel, Prime Minister Theresa May called a snap election in June in a surprise move designed to give her an increased majority ahead of Brexit negotiations. Instead, the UK electorate responded by wiping out the slim majority she had commanded before the election.

For most of the review period, the pace was set by technology companies, whose shares were supported by some very strong results. Financial shares were also in favour, buoyed by the prospect of less regulation in the US and a strengthening economy in Europe. Conversely, defensive sectors (that is, sectors that tend to remain more stable throughout the economic cycle), such as consumer goods, healthcare, utilities and telecommunication services lagged the broader market. Energy shares were also a notable underperformer.

Over the 12 months relative performance was hurt by some of the fund's holdings in healthcare, notably Mallinckrodt and Otsuka Holdings. US-based Mallinckrodt specialises in drugs using highly regulated raw materials. Shares in the company fell following news that the Food and Drug Administration (FDA) had proposed to withdraw approval of one of Mallinckrodt's generic drugs. The FDA believes that it does not have sufficient data to demonstrate that the drug is the bio-equivalent of the branded version. Separately, management warned that it expected further pricing pressure in the generics sector.

When we purchased Japan-based diversified pharmaceutical company Otsuka Holdings it was a relatively unknown and out-of-favour company. After a strong run, its shares ran into profit taking. Otsuka is an innovative company that we believe will begin to grow again, despite current investor scepticism.

However, other holdings from the sector including Kite Pharma and Mazor Robotics added value. Both companies are examples of how new therapies and innovations are transforming the healthcare sector and creating a polarisation in performance between the winners and losers.

Kite Pharma is a clinical-stage biopharma company focused on the development and commercialisation of novel and very promising cancer immunotherapy products. Towards the end of the review period, Gilead Sciences agreed to acquire Kite Pharma for US\$11.9 billion.

Mazor Robotics is a leading innovator in robotics for spine surgery. Mazor has signed a very significant partnership deal with Medtronic, a key player in the industry. We expect the tie-up to have a disruptive effect in the field due to product differentiation and because hospitals are increasingly focused on outcomes of procedures (value) rather than volumes.

Stockpicking in the technology sector also held back relative returns overall, however, this was partly offset by the fund's overweight position to the sector. The holding that detracted the most was Xperi (formerly known as Tessera). Xperi weakened on concerns over the potential of the company's greenfield projects and whether a major customer would continue to licence its technology.

Not holding consumer technology giant Apple – which reported solid results – also held back relative performance, as did not holding some of the large-cap Chinese names such as Tencent and Alibaba.

On the other hand, holding Nvidia added value. Nvidia is a good example of how we look for companies that are misunderstood when we initially invest, but have the ability to create new markets. Nvidia has taken its high performance graphics processing units used in high-end gaming computers and applied them to new markets such as data centres and autonomous driving, where processing speed is key. The holding has now been sold as most investors recognise this change and the discussion has shifted to how big its addressable market is.

We are particularly excited about the impact of cloud computing and two of the fund's largest holdings – Microsoft and Amazon – also contributed to relative returns. Microsoft is going through transition from a traditional software licensing business to a subscription model in its commercial software offering. The global software giant is also growing its cloud infrastructure business for its core enterprise clients. Whilst weakness in the consumer business, which includes its hardware division and Windows licensing is a concern for some investors, the shares are still trading on a very attractive cashflow multiple in our view.

We feel investors are undervaluing online retailer and consumer electronics company Amazon's web services division which provides, amongst other things, 'cloud' computing services. Initially, Amazon targeted small and medium-sized customers, who do not have the critical mass to build their own server infrastructure and are therefore willing to rent capacity.

Now the public cloud has become mainstream, Amazon has broadened its vision and is building a highly profitable software business on top of its cloud infrastructure. Amazon has a seemingly inexhaustible ability to build a business to support its own operations and then open it up to third parties. A new 'logistics as a service' business could materialise as another example.

Elsewhere, a holding in Ingredion hurt performance. Ingredion is a manufacturer of corn-based starch and sweeteners. The company exports the excess high fructose corn syrup (HFCS) it produces and some investors are concerned these exports could be blocked if US trade was adversely affected by the Trump presidency. However, we believe these fears are overdone as sweeteners, including HFCS, represent less than 10% of Ingredion's business.

The fund's top contributor over the review period was Chegg which reported positive results and raised guidance for the current financial year. We feel other investors misunderstand Chegg's business. The company has a clear strategy centred around supporting students at college, making their education more cost effective and improving their chances of success. In our view, Chegg could be one of the companies at the vanguard of educational reform through the application of digital technology.

Financials were in favour during the review period and two holdings that stood out were Intesa Sanpaolo and Sberbank. Shares in Intesa Sanpaolo rallied after agreeing to acquire the good assets of two failed Veneto banks for a token sum. The move, which was backed by the Italian state, reduces the systemic risk in the country's financial sector, and also lifted the share price of other banks.

We believe that share prices move most when people change how they feel about a company. This is why we focus on buying misunderstood and mis-labelled businesses. Italy is a good example of a change in perception, as risks have been dramatically reduced. Consequently, Italy was one of the strongest performing stockmarkets over the review period.

M&G Global Leaders Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Sberbank is an extremely well-run bank in our view, although we accept that it carries additional risks being based in Russia. If it wasn't for this, the bank would have a greater weighting in the portfolio.

Investment activities

For the M&G Global Leaders Fund, we select stocks from across the global investment universe, identifying companies that are undergoing positive change leading to improvements in return on capital. The observed improvements at the company must not yet be reflected in its share price.

We restructured our US healthcare exposure during the review period, to reflect our current thinking on the sector. The US healthcare system exhibits most of the characteristics of a bubble in our view: costs have risen faster than consumer prices for over 50 years, healthcare is a poor value proposition, and healthcare expenditure now represents an unsustainable level relative to individuals' incomes and total federal government spending.

As a result, we reduced the size of some of our healthcare positions and exited a holding in CVS Health. CVS is an integrated pharmacy and healthcare provider. Amongst other things, the company is being affected by the trend in retail sales moving online, which has resulted in slowing sales in its pharmacy outlets.

We reinvested the proceeds into smaller innovative companies such as Kite Pharma, GW Pharmaceutical and Mesoblast. While each company addresses different therapeutic treatments, they share the common characteristics of having a technological platform that could be potentially transformative in addressing big unmet needs. We also began a position in Aetna, which is an organisation leading the charge in the shift from volume to value based care with an admirable corporate culture.

Turning to emerging markets – where we are underweight and which has cost some relative performance – we were able to buy shares at attractive levels in some markets due to exogenous shocks, ie increased political risk. Haci Omer Sabanci and Duratex are examples of this. Conglomerate Haci Omer Sabanci provides exposure to cheap Turkish financial stocks and we are expecting improved performance at its energy division, where management are restructuring the business. Turnaround story Duratex is a leading Brazilian wood and home improvement company.

We also increased our exposure to Central and Eastern Europe, an area of the market that we believe is offering attractive value, by purchasing shares in Erste Bank. The Austrian bank has a strong capital position that we think can support both dividend and loan growth.

Elsewhere in financials, we bought shares in SVB Financial, a strong Silicon Valley-based bank with a niche business model and culture that understands its customers (venture capital clients). Another newcomer to the fund from the sector is Health Insurance Innovations, a provider of short-term medical insurance cover for the large section of the US population who are uninsured. Its technology platform is unique and highly scalable, giving it a competitive advantage.

Finally in financials, we began a holding in Affiliated Managers, a diversified asset management firm that uses a partnership approach. This allows affiliates to retain autonomy, but overall, the company has

the scale of a global asset manager. Affiliated trades on an attractive valuation relative to the sector and the market. This is partly due to the negative sentiment towards active fund management, which we believe was too extreme at the time of purchase. The purchase was funded from the sale of Royal Bank of Scotland where the early wins from cost cutting did not convert into a sustainable cultural change at the business, in our view.

We also initiated positions in names such as G4S, Siemens and Manitowoc. G4S is a UK-based global security, facilities management and cash solutions firm. We regard G4S as the type of classic turnaround story that we look for on the Leaders team. Whilst headlines still reflect past bad behaviour at the company, G4S is changing for the better. However, we realise this might be a slow journey, given the company's size. Therefore, we are in close contact with management and are particularly keen to see improvements in safety, measures to enable staff to problem solve and improving working conditions and reducing staff turnover.

The new chief executive at the German-based industrial group Siemens has instigated a wide-ranging restructuring of the company, which we believe will improve profits going forward. Amongst the measures announced are the listing of Siemens' healthcare division and a focus on developing innovative technologies for 'the factory of the future', that is, 3D printing, lightweight robots and simulation.

Meanwhile, Wisconsin-based Manitowoc, is now a well-run market leader in cranes. The company has a great new management team with a strong track record. Manitowoc is a medium sized business, where changing the way it does things can make a huge difference, particularly if the construction sector and demand for cranes picks up with the economic recovery.

The largest position to be closed during the review period was Nvidia, a designer and manufacturer of high performance graphics processing units. The stock has done very well for the fund and was sold on valuation grounds.

Outlook

Japan remains the fund's most significant above-index position, where valuations are attractive. We believe that selecting companies that are proactively engaged in creating shareholder value will be a key differentiator in this market.

The potential for increased government spending combined with tax reforms from a Trump-led US government have tipped the odds in favour of faster economic growth and rising interest rates in the near term. Indeed, in June, the US Federal Reserve raised interest rates for the second time in 2017. However, our long-term base case is that the forces of global excess capacity and technology are here to stay and economic activity is likely to be less buoyant than the more optimistic expectations in the market.

Aled Smith

Fund manager

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

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

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

M&G Global Leaders Fund

Authorised Corporate Director's Report

Investments

Portfolio statement			
as at 31 August	2017	2017	2016
Holding	\$'000	%	%
Equities	684,758	98.38	96.36
Oil & gas producers	18,990	2.73	2.47
304,871 International Petroleum	1,082	0.16	
391,886 Lundin Petroleum	8,234	1.18	
2,570,033 MEG Energy	9,674	1.39	
Oil equipment, services & distribution	0	0.00	0.61
Chemicals	15,176	2.18	3.92 [a]
150,593 Avery Dennison	14,159	2.03	
447,971 Senestech	1,017	0.15	
Industrial metals & mining	0	0.00	0.00 [a]
Construction & materials	11,643	1.67	1.48
446,600 LIXIL Group	11,643	1.67	
General industrials	23,980	3.45	1.77 [a]
135,918 ITT	5,453	0.78	
49,282 Parker Hannifin	7,908	1.14	
81,380 Siemens	10,619	1.53	
Electronic & electrical equipment	33,538	4.82	5.61 [a]
261,700 Amano	6,077	0.87	
337,401 Jabil (formerly Jabil Circuit)	10,419	1.50	
364,910 Knowles	5,397	0.78	
103,400 Nidec	11,645	1.67	
Industrial engineering	17,697	2.54	0.84
663,967 Bodycote	8,203	1.18	
1,149,446 Manitowoc	9,494	1.36	
Support services	41,465	5.96	2.22 [a]
284,728 Asure Software	3,220	0.46	
77,660 Cimpress	7,136	1.03	
302,177 CoreLogic	14,142	2.03	
3,672,654 G4S	13,430	1.93	
300,000 ShotSpotter	3,537	0.51	
Automobiles & parts	22,876	3.29	3.43
1,325,059 Hanon Systems	13,573	1.95	
105,415 Renault	9,303	1.34	
Food producers	20,902	3.00	2.80
125,806 Ingredion	15,567	2.23	
352,842 Nomad Foods	5,335	0.77	
Household goods & home construction	32,602	4.68	5.37 [a]
2,710,954 Samsonite International	11,069	1.59	
51,331 Snap-on	7,502	1.08	
83,065 Whirlpool	14,031	2.01	
Leisure goods	11,161	1.60	2.06
427,461 Amer Sports	11,161	1.60	
Personal goods	1,424	0.21	0.88 [a]
162,000 Crocs	1,424	0.21	
Healthcare equipment & services	29,608	4.25	2.38
44,273 Aetna	6,946	1.00	
317,603 Mazor Robotics	7,572	1.08	
189,005 Medtronic	15,090	2.17	
Pharmaceuticals & biotechnology	69,736	10.02	14.05 [a]
1,421,646 Duratex	3,860	0.55	
32,837 GW Pharmaceuticals ADR	3,449	0.50	
300,000 Horizon Discovery Group [b]	935	0.13	
2,372,475 Indivior	12,690	1.82	
27,711 Kite Pharma	4,929	0.71	

Portfolio statement (continued)

as at 31 August	2017	2017	2016
Holding	\$'000	%	%
Pharmaceuticals & biotechnology (continued)			
154,231 Mallinckrodt Pharmaceuticals	6,069	0.87	
1,855,215 Mesoblast	2,093	0.30	
155,622 Novartis (Regd.)	12,942	1.86	
331,300 Otsuka	13,265	1.91	
488,400 Toho	9,504	1.37	
Food & drug retailers	0	0.00	1.77
General retailers	55,780	8.01	7.23
30,195 Amazon	29,206	4.20	
1,248,638 Chegg	17,369	2.49	
2,424,286 Kingfisher	9,205	1.32	
Media	0	0.00	0.00 [a]
Travel & leisure	15,964	2.29	2.76
496,996 MGM Resorts International	15,964	2.29	
Fixed line telecommunications	13,327	1.92	1.90
4,777,089 Spark New Zealand	13,327	1.92	
Banks	55,818	8.02	5.03
282,520 Erste Group	11,938	1.72	
3,494,851 Intesa Sanpaolo	11,827	1.70	
137,423 KBC Group	11,302	1.62	
661,686 Sberbank of Russia ADR	8,959	1.29	
69,513 SVB Financial Group	11,792	1.69	
Non-life insurance	3,709	0.53	0.63 [a]
712,511 Brasil Insurance	3,709	0.53	
Life insurance	38,214	5.49	3.03 [a]
2,280,035 AIA Group	17,483	2.51	
25,252 BrightHouse Financial	1,442	0.21	
171,130 Health Insurance Innovations	6,220	0.89	
277,772 MetLife	13,069	1.88	
Financial services	38,835	5.58	1.60
87,095 Affiliated Managers	15,153	2.18	
2,827,070 Hacı Omer Sabanci	8,652	1.24	
329,241 Morgan Stanley	15,030	2.16	
Software & computer services	79,820	11.47	9.89 [a]
12,526 Alphabet	11,644	1.67	
1,961,406 Castlight Health	7,453	1.07	
483,121 Microsoft	35,751	5.14	
358,600 Nomura Research Institute	13,862	1.99	
2,528,710 Rocket Fuel	6,499	0.94	
114,690 Scout24	4,611	0.66	
Technology hardware & equipment	32,493	4.67	12.63 [a]
73,700 FUJIFILM Holdings	2,880	0.41	
192,137 Motorola Solutions	16,833	2.42	
475,975 Xperi	12,780	1.84	
Forward currency contracts	351	0.05	(0.18)
¥(3,664,699,000) Sold for \$33,500,000 (expires 13.09.17)	351	0.05	
Portfolio of investments	685,109	98.43	96.18
'AAA' rated money market funds [c]	12,119	1.74	2.66
12,119,000 Northern Trust Global Fund - US dollar	12,119	1.74	
Total portfolio (notes 2c & 2d on page 6)	697,228	100.17	98.84
Net other assets / (liabilities)	(1,198)	(0.17)	1.16
Net assets attributable to shareholders	696,030	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.

M&G Global Leaders Fund

Authorised Corporate Director's Report

Investments

Top ten portfolio transactions

for the year to 31 August 2017

Largest purchases	\$'000
G4S	15,993
SVB Financial Group	12,911
Affiliated Managers	12,547
Erste Group	10,433
Siemens	10,039
Haci Omer Sabanci	8,636
Manitowoc	7,131
Aetna	6,812
Nomad Foods	5,269
Scout24	3,969
Other purchases	70,997
Total purchases	164,737
Largest sales	\$'000
NVIDIA	43,634
Amgen	19,241
Akzo Nobel	17,609
Indivior	15,236
CVS Health	14,641
Otsuka	14,067
Jabil Circuit	13,874
Amazon	12,752
FUJIFILM Holdings	12,344
Motorola Solutions	11,682
Other sales	249,273
Total sales	424,353

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

M&G Global Leaders Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

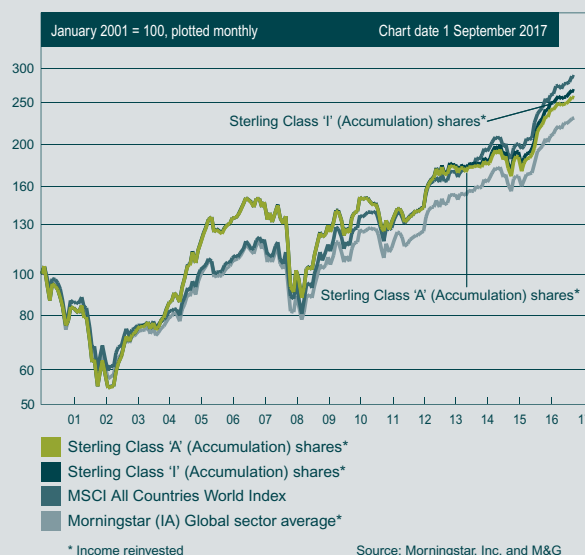
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 \$'000	2016 \$'000	2015 \$'000
Fund net asset value (NAV)	696,030	889,660	1,129,865

Performance since launch

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



When the fund's objective changed, the comparable index of the fund also changed, and to make a fair comparison the chart above shows performance since the fund's change of objective.

The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Global Leaders Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+6.9	+6.9	+9.6	+4.3 ^[c]
Class 'C'	+8.0	+8.0	+10.7	+5.3 ^[c]
Sterling ^[d]				
Class 'A'	+17.3	+12.8	+13.3	+8.3 ^[e]
Class 'I'	+18.2	+13.6	+14.2	+14.4 ^[f]
Class 'R'	+17.9	+13.4	+13.9	+14.1 ^[f]
Class 'X'	+17.3	+12.8	+13.3	+15.6 ^[g]
US dollar ^[b]				
Class 'A'	+14.2	+3.5	+8.4	+1.9 ^[h]
Class 'C'	+15.4	+4.5	+9.5	+2.9 ^[h]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] Price to price with income reinvested.

^[e] 31 May 1985, the end of the initial offer period of the predecessor unit trust.

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

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

^[h] 9 March 2007, 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.

M&G Global Leaders Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.08	0.09	0.08	0.08
Taxes	0.02	0.02	0.02	0.02
Costs before dilution adjustments	0.10	0.11	0.10	0.10
Dilution adjustments ^[c]	(0.04)	(0.03)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.06	0.08	0.08	0.07
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.13	0.09	0.10	0.11

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 28 November 2001.

for the year to 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,821.78	1,692.43	1,587.27
Return before operating charges and after direct portfolio transaction costs	168.89	162.15	138.57
Operating charges	(37.65)	(32.80)	(33.41)
Return after operating charges	131.24	129.35	105.16
Distributions	0.00	(25.12)	(23.42)
Retained distributions	0.00	25.12	23.42
Closing NAV	1,953.02	1,821.78	1,692.43
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.87	1.94	1.74
Dilution adjustments ^[a]	(0.69)	(0.43)	(0.30)
Total direct portfolio transaction costs	1.18	1.51	1.44
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.92	1.93	1.92
Return after operating charges	+7.20	+7.64	+6.63
Historic yield	0.00	1.36	1.39
Effect on yield of charges offset against capital	0.00	1.75	1.75
Other information			
Closing NAV (\$'000)	355,781	337,851	361,500
Closing NAV percentage of total fund NAV (%)	51.12	37.98	31.99
Number of shares	15,363,288	16,644,312	18,936,761
Highest share price (Euro ¢)	2,076.09	1,887.58	1,956.28
Lowest share price (Euro ¢)	1,767.65	1,432.34	1,448.51

M&G Global Leaders Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,098.51	1,930.06	1,792.62
Return before operating charges and after direct portfolio transaction costs	194.49	186.44	155.04
Operating charges	(20.80)	(17.99)	(17.60)
Return after operating charges	173.69	168.45	137.44
Distributions	(16.01)	(28.79)	(26.60)
Retained distributions	16.01	28.79	26.60
Closing NAV	2,272.20	2,098.51	1,930.06

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.15	2.21	1.89
Dilution adjustments ^[a]	(0.80)	(0.49)	(0.32)
Total direct portfolio transaction costs	1.35	1.72	1.57

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	0.92	0.92	0.92
Return after operating charges	+8.28	+8.73	+7.67
Historic yield	0.71	1.35	1.38
Effect on yield of charges offset against capital	0.00	0.75	0.75

Other information

Closing NAV (\$'000)	8,606	12,620	2,904
Closing NAV percentage of total fund NAV (%)	1.24	1.42	0.26
Number of shares	319,419	539,740	133,401
Highest share price (Euro ¢)	2,408.00	2,158.16	2,222.43
Lowest share price (Euro ¢)	2,039.78	1,640.86	1,637.98

Sterling Class 'A' Income share performance

The share class was launched on 31 May 1985.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	226.02	183.66	188.87
Return before operating charges and after direct portfolio transaction costs	41.79	48.69	2.39
Operating charges	(4.15)	(3.26)	(5.04)
Return after operating charges	37.64	45.43	(2.65)
Distributions	(4.06)	(3.07)	(2.56)
Closing NAV	259.60	226.02	183.66

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.24	0.22	0.30
Dilution adjustments ^[a]	(0.09)	(0.05)	(0.05)
Total direct portfolio transaction costs	0.15	0.17	0.25

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.67	1.68	1.67
Return after operating charges	+16.65	+24.74	-1.40
Historic yield ^[c]	1.58	1.35	1.40
Effect on yield of charges offset against capital	1.65	1.50	1.50

Other information

Closing NAV (\$'000)	77,690	78,020	86,109
Closing NAV percentage of total fund NAV (%)	11.16	8.77	7.62
Number of shares	23,242,019	26,277,613	30,468,745
Highest share price (UK p)	263.09	232.15	210.63
Lowest share price (UK p)	221.04	166.93	172.92

Sterling Class 'A' Accumulation share performance

The share class was launched on 31 May 1985.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	540.04	432.49	438.75
Return before operating charges and after direct portfolio transaction costs	99.93	115.23	5.49
Operating charges	(9.81)	(7.68)	(11.75)
Return after operating charges	90.12	107.55	(6.26)
Distributions	0.00	(7.25)	(5.97)
Retained distributions	0.00	7.25	5.97
Closing NAV	630.16	540.04	432.49

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.56	0.52	0.70
Dilution adjustments ^[a]	(0.21)	(0.12)	(0.12)
Total direct portfolio transaction costs	0.35	0.40	0.58

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.67	1.68	1.67
Return after operating charges	+16.69	+24.87	-1.43
Historic yield	0.00	1.33	1.38
Effect on yield of charges offset against capital	0.00	1.50	1.50

Other information

Closing NAV (\$'000)	158,871	370,937	593,342
Closing NAV percentage of total fund NAV (%)	22.82	41.70	52.51
Number of shares	19,580,090	52,287,354	89,155,188
Highest share price (UK p)	632.16	549.64	491.34
Lowest share price (UK p)	528.12	393.15	401.73

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,593.09	1,284.80	1,311.25
Return before operating charges and after direct portfolio transaction costs	295.51	342.51	10.95
Operating charges	(16.21)	(12.66)	(19.54)
Return after operating charges	279.30	329.85	(8.59)
Distributions	(28.73)	(21.56)	(17.86)
Closing NAV	1,843.66	1,593.09	1,284.80

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.67	1.56	2.13
Dilution adjustments ^[a]	(0.62)	(0.35)	(0.36)
Total direct portfolio transaction costs	1.05	1.21	1.77

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	0.92	0.93	0.92
Return after operating charges	+17.53	+25.67	-0.66
Historic yield ^[c]	1.57	1.34	1.39
Effect on yield of charges offset against capital	0.90	0.75	0.75

Other information

Closing NAV (\$'000)	21,114	20,144	14,128
Closing NAV percentage of total fund NAV (%)	3.03	2.26	1.25
Number of shares	889,413	962,582	714,608
Highest share price (UK p)	1,867.80	1,635.80	1,469.16
Lowest share price (UK p)	1,558.45	1,171.73	1,201.73

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Specific share class performance

Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,692.89	1,345.59	1,354.84
Return before operating charges and after direct portfolio transaction costs	314.71	360.59	10.88
Operating charges	(17.36)	(13.29)	(20.13)
Return after operating charges	297.35	347.30	(9.25)
Distributions	(13.81)	(22.66)	(18.50)
Retained distributions	13.81	22.66	18.50
Closing NAV	1,990.24	1,692.89	1,345.59

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.79	1.64	2.19
Dilution adjustments ^[a]	(0.66)	(0.36)	(0.38)
Total direct portfolio transaction costs	1.13	1.28	1.81

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	0.92	0.93	0.92
Return after operating charges	+17.56	+25.81	-0.68
Historic yield	0.70	1.33	1.38
Effect on yield of charges offset against capital	0.00	0.75	0.75

Other information

Closing NAV (\$'000)	35,971	26,899	18,318
Closing NAV percentage of total fund NAV (%)	5.17	3.02	1.62
Number of shares	1,403,686	1,209,558	884,644
Highest share price (UK p)	1,995.97	1,722.45	1,524.29
Lowest share price (UK p)	1,656.06	1,227.36	1,241.73

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	157.66	127.47	130.43
Return before operating charges and after direct portfolio transaction costs	29.21	33.92	1.26
Operating charges	(2.03)	(1.59)	(2.45)
Return after operating charges	27.18	32.33	(1.19)
Distributions	(2.84)	(2.14)	(1.77)
Closing NAV	182.00	157.66	127.47

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.17	0.15	0.21
Dilution adjustments ^[a]	(0.06)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.11	0.12	0.17

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.17	1.18	1.17
Return after operating charges	+17.24	+25.36	-0.91
Historic yield ^[c]	1.57	1.35	1.40
Effect on yield of charges offset against capital	1.15	1.00	1.00

Other information

Closing NAV (\$'000)	284	259	285
Closing NAV percentage of total fund NAV (%)	0.04	0.03	0.03
Number of shares	121,123	125,054	145,058
Highest share price (UK p)	184.41	161.91	145.90
Lowest share price (UK p)	154.22	116.12	119.49

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	167.52	133.49	134.74
Return before operating charges and after direct portfolio transaction costs	31.11	35.70	1.29
Operating charges	(2.18)	(1.67)	(2.54)
Return after operating charges	28.93	34.03	(1.25)
Distributions	(0.90)	(2.24)	(1.84)
Retained distributions	0.90	2.24	1.84
Closing NAV	196.45	167.52	133.49

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.18	0.16	0.22
Dilution adjustments ^[a]	(0.07)	(0.04)	(0.04)
Total direct portfolio transaction costs	0.11	0.12	0.18

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.17	1.18	1.17
Return after operating charges	+17.27	+25.49	-0.93
Historic yield	0.46	1.33	1.38
Effect on yield of charges offset against capital	0.00	1.00	1.00

Other information

Closing NAV (\$'000)	327	260	217
Closing NAV percentage of total fund NAV (%)	0.05	0.03	0.02
Number of shares	129,149	118,031	105,597
Highest share price (UK p)	197.04	170.46	151.36
Lowest share price (UK p)	163.86	121.62	123.46

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	223.57	181.67	186.82
Return before operating charges and after direct portfolio transaction costs	41.35	48.16	2.37
Operating charges	(4.11)	(3.22)	(4.99)
Return after operating charges	37.24	44.94	(2.62)
Distributions	(4.02)	(3.04)	(2.53)
Closing NAV	256.79	223.57	181.67

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.23	0.22	0.30
Dilution adjustments ^[a]	(0.09)	(0.05)	(0.05)
Total direct portfolio transaction costs	0.14	0.17	0.25

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.67	1.68	1.67
Return after operating charges	+16.66	+24.74	-1.40
Historic yield ^[c]	1.58	1.35	1.40
Effect on yield of charges offset against capital	1.65	1.50	1.50

Other information

Closing NAV (\$'000)	10,526	9,809	10,496
Closing NAV percentage of total fund NAV (%)	1.51	1.10	0.93
Number of shares	3,183,656	3,339,914	3,754,714
Highest share price (UK p)	260.24	229.64	208.34
Lowest share price (UK p)	218.64	165.12	171.04

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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 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	532.97	426.82	433.00
Return before operating charges and after direct portfolio transaction costs	98.72	113.74	5.39
Operating charges	(9.80)	(7.59)	(11.57)
Return after operating charges	88.92	106.15	(6.18)
Distributions	0.00	(7.16)	(5.88)
Retained distributions	0.00	7.16	5.88
Closing NAV	621.89	532.97	426.82
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.56	0.52	0.69
Dilution adjustments ^[a]	(0.21)	(0.11)	(0.12)
Total direct portfolio transaction costs	0.35	0.41	0.57
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.67	1.68	1.67
Return after operating charges	+16.68	+24.87	-1.43
Historic yield	0.00	1.33	1.38
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (\$'000)	17,254	21,650	23,877
Closing NAV percentage of total fund NAV (%)	2.48	2.43	2.11
Number of shares	2,154,776	3,092,350	3,635,414
Highest share price (UK p)	623.88	542.43	484.90
Lowest share price (UK p)	521.21	388.00	396.47

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,061.40	998.21	1,094.68
Return before operating charges and after direct portfolio transaction costs	170.79	82.21	(83.52)
Operating charges	(21.28)	(19.02)	(12.95)
Return after operating charges	149.51	63.19	(96.47)
Distributions	0.00	(14.52)	(13.79)
Retained distributions	0.00	14.52	13.79
Closing NAV	1,210.91	1,061.40	998.21
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.06	1.12	0.67
Dilution adjustments ^[a]	(0.39)	(0.25)	(0.12)
Total direct portfolio transaction costs	0.67	0.87	0.55
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	1.92	1.93	1.92
Return after operating charges	+14.09	+6.33	-8.81
Historic yield	0.00	1.35	1.40
Effect on yield of charges offset against capital	0.00	1.75	1.75
Other information			
Closing NAV (\$'000)	9,054	10,763	18,250
Closing NAV percentage of total fund NAV (%)	1.30	1.21	1.62
Number of shares	747,682	1,014,063	1,828,358
Highest share price (US ¢)	1,229.68	1,068.19	1,106.73
Lowest share price (US ¢)	1,026.26	849.23	963.83

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,165.77	1,085.44	1,178.64
Return before operating charges and after direct portfolio transaction costs	189.09	90.34	(86.78)
Operating charges	(11.51)	(10.01)	(6.42)
Return after operating charges	177.58	80.33	(93.20)
Distributions	(9.27)	(15.88)	(14.91)
Retained distributions	9.27	15.88	14.91
Closing NAV	1,343.35	1,165.77	1,085.44
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.19	1.23	0.69
Dilution adjustments ^[a]	(0.44)	(0.27)	(0.12)
Total direct portfolio transaction costs	0.75	0.96	0.57
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.08
Operating charges	0.92	0.93	0.93
Return after operating charges	+15.23	+7.40	-7.91
Historic yield	0.69	1.34	1.39
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (\$'000)	552	448	439
Closing NAV percentage of total fund NAV (%)	0.08	0.05	0.04
Number of shares	41,074	38,415	40,356
Highest share price (US ¢)	1,362.84	1,173.00	1,201.17
Lowest share price (US ¢)	1,129.18	927.60	1,040.74

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		89,818		61,087
Revenue	5	13,251		18,409	
Expenses	6	(12,150)		(17,831)	
Net revenue / (expense) before taxation		1,101		578	
Taxation	7	(1,627)		(1,579)	
Net revenue / (expense) after taxation			(526)		(1,001)
Total return before distributions			89,292		60,086
Distributions	8		(1,936)		(15,022)
Change in net assets attributable to shareholders from investment activities			87,356		45,064

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		889,660		1,129,865
Amounts received on issue of shares	71,354		60,340	
Amounts paid on cancellation of shares	(353,100)		(357,819)	
		(281,746)		(297,479)
Dilution adjustments		440		419
Change in net assets attributable to shareholders from investment activities (see above)		87,356		45,064
Retained distributions on Accumulation shares		312		11,776
Unclaimed distributions		8		15
Closing net assets attributable to shareholders		696,030		889,660

Balance sheet

as at 31 August	Note	2017 \$'000	2016 \$'000
Assets			
Fixed assets			
Investments		697,228	880,985
Current assets			
Debtors	9	4,734	3,756
Cash and bank balances	10	288	9,484
Total assets		702,250	894,225
Liabilities			
Investment liabilities		0	(1,601)
Creditors			
Distribution payable		(1,119)	(997)
Other creditors	11	(5,101)	(1,967)
Total liabilities		(6,220)	(4,565)
Net assets attributable to shareholders		696,030	889,660

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's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for reinvestment to Accumulation shares, the annual management charge is no longer offset against capital, reducing the amount available for reinvestment. For Income shares, in addition to the annual management charge, the administration charge is now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

3 Net capital gains / (losses)

for the year to 31 August	2017 \$'000	2016 \$'000
Non-derivative securities	87,120	71,348
Derivative contracts	4,076	(9,637)
Currency gains / (losses)	(1,364)	(613)
Transaction charges	(14)	(11)
Net capital gains / (losses)	89,818	61,087

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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 pages 95 and 96.

for the year to 31 August	2017 \$'000	% of transaction	2016 \$'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	164,505		233,787	
Commissions	135	0.08	287	0.12
Taxes	97	0.06	133	0.06
Equities after transaction costs	164,737		234,207	
Other transaction types				
Corporate actions	0		3,076	
Total purchases after transaction costs	164,737		237,283	

b) Sales				
Equities				
Equities before transaction costs	424,789		525,591	
Commissions	(382)	0.09	(680)	0.13
Taxes	(54)	0.01	(78)	0.01
Equities after transaction costs	424,353		524,833	

c) Direct portfolio transaction costs	2017 \$'000	% of average NAV	2016 \$'000	% of average NAV
Commissions paid				
Equities	517	0.08	967	0.09
Taxes paid				
Equities	151	0.02	211	0.02
Total direct portfolio transaction costs [a]	668	0.10	1,178	0.11

d) Indirect portfolio transaction costs	%	%
Portfolio dealing spread [b]	0.13	0.09

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

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

5 Revenue

for the year to 31 August	2017 \$'000	2016 \$'000
Bank interest	2	5
Dividends from equity investments: non-taxable	12,337	17,475
Dividends from equity investments: taxable	518	405
Interest distributions	136	51
Interest on withholding tax previously withheld at source	66	0
Stock dividends	192	473
Total revenue	13,251	18,409

6 Expenses

for the year to 31 August	2017 \$'000	2016 \$'000
Payable to the ACD or associate		
Annual management charge	10,940	16,023
Administration charge	1,052	1,552
	11,992	17,575
Payable to the Depository or associate		
Depository's charge (including VAT)	48	66
Other expenses		
Audit fee (including VAT)	11	11
Dividend charges	17	23
Interest payable	3	2
Legal fees	0	1
Safe custody charge	68	156
Tax fees (including VAT)	16	3
	115	196
VAT recoverable		
Current year	0	(6)
Prior year	(5)	0
Total expenses	12,150	17,831

7 Taxation

for the year to 31 August	2017 \$'000	2016 \$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	1,675	1,666
Withholding tax recoverable: previously withheld at source	(48)	(87)
Deferred tax (note 7c)	0	0
Total taxation	1,627	1,579

b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	1,101	578
Corporation tax at 20%	220	116
Effects of:		
Dividends from equity investments: non-taxable	(2,467)	(3,495)
Stock dividends not taxable	(38)	(95)
Current year expenses not utilised	2,290	3,477
Withholding tax	1,675	1,666
Withholding tax recoverable: previously withheld at source	(48)	(87)
Withholding tax expensed	(5)	(3)
Total tax charge (note 7a)	1,627	1,579

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 \$33,916,000 (2016: \$31,626,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

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8 Distributions

for the year to 31 August	2017		2016	
	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Dividend distributions				
Interim	585	57	530	4,642
Final	1,119	255	997	7,134
Total net distributions		2,016		13,303
Income deducted on cancellation of shares		(3)		1,901
Income received on issue of shares		(77)		(182)
Distributions		1,936		15,022
Net revenue / (expense) per statement of total return		(526)		(1,001)
Expenses offset against capital		1,592		16,023
Income deficit transferred to capital		870		0
Distributions		1,936		15,022

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 August	2017 \$'000	2016 \$'000
Amounts receivable on issues of shares	699	771
Currency deals outstanding	1,770	148
Distributions receivable	11	14
Dividends receivable	805	1,259
Interest receivable on withholding tax previously withheld at source	0	45
Sales awaiting settlement	472	71
Withholding tax recoverable	977	1,448
Total debtors	4,734	3,756

10 Cash and bank balances

as at 31 August	2017 \$'000	2016 \$'000
Amounts held at futures clearing houses and collateral manager	0	3,110
Cash held as bank balances	288	6,374
Total cash and bank balances	288	9,484

11 Other creditors

as at 31 August	2017 \$'000	2016 \$'000
ACD's annual management charge payable	503	634
Administration charge payable	49	62
Amounts payable on cancellation of shares	2,178	1,077
Currency deals outstanding	1,775	148
Expenses payable	30	46
Purchases awaiting settlement	566	0
Total other creditors	5,101	1,967

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	16,644,312	577,087	(1,858,111)	15,363,288
Class 'C' Accumulation	539,740	120,466	(340,787)	319,419
Sterling				
Class 'A' Income	26,277,613	1,199,413	(4,235,007)	23,242,019
Class 'A' Accumulation	52,287,354	2,196,335	(34,903,599)	19,580,090
Class 'I' Income	962,582	60,742	(133,911)	889,413
Class 'I' Accumulation	1,209,558	713,539	(519,411)	1,403,686
Class 'R' Income	125,054	42,606	(46,537)	121,123
Class 'R' Accumulation	118,031	21,935	(10,817)	129,149
Class 'X' Income	3,339,914	111,141	(267,399)	3,183,656
Class 'X' Accumulation	3,092,350	32,643	(970,217)	2,154,776
US dollar				
Class 'A' Accumulation	1,014,063	1,476,738	(1,743,119)	747,682
Class 'C' Accumulation	38,415	42,259	(39,600)	41,074

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	1.75
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.75
Class 'C'	3.25	n/a	0.75

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

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

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15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 29.26% (2016: 31.62%) 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2017	2017	2016	2016
	\$'000	\$'000	\$'000	\$'000
Level 1	684,758	0	857,283	0
Level 2	12,470	0	23,702	(1,601)
Level 3	0	0	0	0
	697,228	0	880,985	(1,601)

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 \$34,255,000 (2016: \$42,784,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by \$34,802,000 (2016: \$44,483,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017	2016
	\$'000	\$'000
Currency exposure in respect of the fund		
Australian dollar	1,528	0
Brazilian real	7,569	5,558
Canadian dollar	9,674	12,744
Euro	71,308	79,906
Hong Kong dollar	28,627	28,361
Israeli shekel	7,571	69
Japanese yen	35,867	55,224
New Zealand dollar	13,327	18,988
South Korean won	13,573	24,124
Sterling	43,856	55,323
Swedish krona	9,317	10,647
Swiss franc	13,348	14,237
Turkish lira	8,652	0
US dollar	431,813	584,479
Total	696,030	889,660

M&G Global Leaders Fund

Financial statements and notes

Notes to the financial statements

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

The table below sets out the counterparty exposure and collateral held to mitigate credit risk.

as at 31 August 2017	Forward currency contracts \$'000	Collateral held as cash \$'000	Net exposure \$'000
State Street Bank	351	0	351
Total	351	0	351

as at 31 August 2016	Forward currency contracts \$'000	Collateral held as cash \$'000	Net exposure \$'000
State Street Bank	(1,601)	3,110	1,509
Total	(1,601)	3,110	1,509

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

Semi-annual distribution periods				
	Start	End	Xd	Payment
Interim	01.09.16	28.02.17	01.03.17	30.04.17
Final	01.03.17	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2016	
	€	€	€	€
Interim	0.0000	0.0000	0.0000	8.4788
Final	0.0000	0.0000	0.0000	16.6393

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2016	
	€	€	€	€
Interim	2.5539	0.7039	3.2578	9.6960
Final	4.6965	8.0605	12.7570	19.0940

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2016	
	p	p	p	p
Interim	0.5720	0.8362	1.4082	0.9868
Final	0.7767	1.8752	2.6519	2.0824

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2016	
	p	p	p	p
Interim	0.0000	0.0000	0.0000	2.3242
Final	0.0000	0.0000	0.0000	4.9295

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2016	
	p	p	p	p
Interim	4.6663	5.2770	9.9433	6.9179
Final	7.3758	11.4136	18.7894	14.6445

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2016	
	p	p	p	p
Interim	0.7143	1.9265	2.6408	7.2464
Final	6.2698	4.9038	11.1736	15.4179

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2016	
	p	p	p	p
Interim	0.6126	0.3711	0.9837	0.6859
Final	1.0596	0.7970	1.8566	1.4502

M&G Global Leaders Fund

Financial statements and notes

Notes to the financial statements

23 Dividend distribution tables (continued)

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	p	p	p	p
Interim	0.0000	0.0433	0.0433	0.7179
Final	0.2311	0.6288	0.8599	1.5262

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	p	p	p	p
Interim	0.9317	0.4614	1.3931	0.9761
Final	1.0246	1.5986	2.6232	2.0597

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	p	p	p	p
Interim	0.0000	0.0000	0.0000	2.2938
Final	0.0000	0.0000	0.0000	4.8655

US dollar Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	¢	¢	¢	¢
Interim	0.0000	0.0000	0.0000	4.8260
Final	0.0000	0.0000	0.0000	9.6956

US dollar Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	¢	¢	¢	¢
Interim	0.3749	1.3471	1.7220	5.2622
Final	5.0018	2.5414	7.5432	10.6202

M&G Global Leaders Fund

Financial statements and notes

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M&G Global Select Fund

Authorised Corporate Director's Report

Investment objective

The Fund aims to maximise long term total return (the combination of capital growth and income) by investing mainly in a wide range of global equities.

Investment policy

The Fund will invest globally (including the UK) in the equities of companies across a wide range of geographies, sectors and market capitalisations. Income is of secondary importance to capital growth when investments are selected. The Fund may at any time be concentrated in a limited number of equities.

Investment approach

The M&G Global Select Fund is a core global equity fund, investing in quality companies, with advantageous characteristics, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings.

The manager keeps the portfolio focused, generally holding between 30 and 40 well-understood stocks, which broadly fall into one of two 'buckets' – 'stable growth' and 'opportunities'. Stable growth companies are those that have a proven track record of producing stable earnings, tending to have very strong market positions or powerful brands, for example. Opportunities companies sit in out-of-favour corners of the market where change is not appreciated or risk is overstated. These tend to be less predictable, but with significant growth potential.

Risk profile

The fund invests globally in the shares of listed companies and is, therefore, subject to the price volatility of the global stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on companies undergoing positive internal change leading to improvements in return on capital, but where the change is not yet reflected in the share price. 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 companies, which can be more unpredictable and difficult to buy and sell. Diversification across countries, 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 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Global Select Fund delivered positive total returns (the combination of income and growth of capital) across all of its share classes.* All share classes, however, finished behind a comparable index, the MSCI World Index. Over the 12 months, returns from the index were 19.9%, 10.2% and 16.9% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has delivered positive total returns, and has remained invested in a diversified portfolio of company shares from anywhere in the world, thus meeting its investment objective.

Investment performance

The period under review was eventful for stockmarkets in developed countries. As we started the period, investors had broadly switched their attention to elections in the US, having previously been focused on the aftermath of the UK referendum on EU membership. Markets were turbulent in the run-up to November's presidential contest, but then rose steadily following the surprise election of Donald Trump, as the potential for reduced taxes and regulation, as well as a prospective boost to spending on infrastructure, cheered investors. Following a lull as we entered the new year, markets then maintained their upward trajectory for much of the period under review. From a regional perspective, confidence in US markets rose and fell as investors pondered President Donald Trump's ability to push through his pro-growth policies, while political and economic developments in Europe helped to drive sentiment on the continent.

In political terms, the tide of populism – highlighted in 2016 by the 'Brexit' decision in the UK and Donald Trump's presidency in the US – was stemmed in Europe, with elections in Holland and France failing to elect candidates from the extremes of the political spectrum; this had a positive effect on markets. Investors were also enlivened by strong business sentiment and accelerating economic activity, which helped to drive earnings. The euro's value, as well, was boosted by Emmanuel Macron's clear-cut win in the French presidential election,

M&G Global Select Fund

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Investment review

Investment performance (continued)

while strong economic data from across the region helped to extend gains. With a sharp decrease in eurozone unemployment and business confidence surveys continuing their positive trend, Europe has appeared to be in the midst of a broad-based upturn, helping to further improve investor confidence. The currency strength, however, had ramifications for euro-denominated investments – while stockmarkets continued to deliver positive returns in sterling and US dollar terms, returns in euro flattened as we moved through the end of the period under review, reflecting the euro's relative rise in value.

Against this background, the information technology, financial and materials sectors delivered strong performance, while some of the more defensive sectors (that is, those that have relatively predictable and stable earnings regardless of the state of the overall economy) lagged, including telecoms, consumer staples and healthcare. The worst performing sector for the period under review was energy, in light of continued weakness in the oil price. For the fund, stock selection among financials hurt relative performance, as some of our holdings – including insurers AIG in the US and Tokio Marine in Japan, as well as US-listed direct banking and payments company Discover Financial Services – delivered positive returns, but lagged the very strong performance of the wider financial sector. Positioning among information technology also weighed on relative returns, both in terms of the fund's below-index position, as well as stock selection within the sector (this included not holding shares in US tech giant Apple, which outpaced the wider market by a considerable degree). On the upside, overall stockpicking within the consumer sectors, as well as the fund's below-index positions in energy and telecoms, was supportive.

At an individual stock level, the fund's largest detractor for the period was Israeli pharmaceutical company Teva. Investor sentiment in the business has been hit by a number of ongoing factors, including US prosecutors investigating potential collusion in the pricing of generic drugs, legal challenges around patents on Teva's branded multiple sclerosis treatment, Copaxone, and the departure of its chief executive. Having been relatively weak from the beginning of the period under review, the company's share price dropped sharply near the end of the period as investors sold their holdings. This followed the release of lacklustre quarterly results and a reduced outlook for the year, in light of increased competition in the US generic drug space.

US retailer operator L Brands (which owns Victoria's Secret and Bath & Body Works, among others) dragged on returns as well, with good results from its Bath & Body Works stores overshadowed by declines in like-for-like sales at Victoria's Secret. This was, in part, due to the company's decision to stop selling swimwear and some other lines, but also reflected a difficult retail environment in the US. This, combined with new competition among 'less sophisticated' types of women's underwear, and reduced profit margins in light of discounting, hurt performance.

Other laggards, from within the industrials space, included US waste service provider Stericycle and German food processing technology and component maker GEA. Stericycle's share price had been suppressed for some time, as concerns over organic growth potential and the difficult integration of document disposal company Shred-it,

acquired in 2015, weighed on sentiment. Stericycle's share price then rose near the end of the period on good results, but subsequently fell sharply in light of potential legal action against the company. GEA's shares, meanwhile, rapidly declined near the start of the period under review when the company confounded investors by reducing its guidance for the year, having already earlier confirmed a positive outlook. Its share price then moved generally sideways for the remainder of the period.

On the upside, the fund's largest contributor was diversified managed healthcare company UnitedHealth, the largest medical insurer in the US (which technically falls under healthcare). UnitedHealth's shares rose steadily throughout the review period, as the business continued to deliver ongoing operational success, including the timely scaling back of its participation in the loss-making Obamacare exchanges. UnitedHealth had warned in 2016 that it expected to lose more than US\$800 million on the exchanges, and subsequently reduced its participation from 34 states to three. This helped to generate earnings that exceeded forecasts, further buoying sentiment in the company. Also related to financials, the fund's holdings in regional lender M&T Bank, Dutch financial institution ING and US financial institution Bank of New York Mellon all benefited from the positive investor mood concerning the financial sector.

Other supportive holdings included US fluid-handling system maker Graco and Anglo-Dutch consumer goods giant Unilever. Graco delivered solid performance, publishing record quarterly sales and earnings numbers during the period, while raising its outlook for 2017. This reflected broad-based demand across Graco's products and geographies, exceeding the company's, and the market's, expectations. Unilever, meanwhile, was a new holding during the review period, its share price having been suppressed for some time (as investors rotated away from 'defensive' companies), thus providing us with the investment opportunity. Unilever's share price subsequently rose sharply on news that competitor Kraft Heinz was seeking a £115 billion bid for the company. Unilever rejected the bid, while upgrading its profit margin expectations for the year, and announcing a "comprehensive review of options" to improve value for shareholders; its share price then continued to rise following the news.

Investment activities

We run a concentrated portfolio of between 30 and 40 holdings, maintaining a watchlist of around 300 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues, or 'disruptions', to create buying opportunities.

During the review period, four such opportunities presented themselves. The first was Linde, the world's second-largest supplier of industrial gases. Following a series of beneficial acquisitions, we believe Linde possesses some of the best assets in the industry, with the potential to improve the profitability of those assets. The company is engaged in highly visible long-term projects in captive markets, generates a lot of cash and is very profitable.

We added a position in Unilever, a high-quality producer of household and beauty products, as well as food and beverages. Unilever is very long term, making strategic acquisitions over time to grow and diversify its business, and is stakeholder, not just shareholder, focused.

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Investment review

Investment activities (continued)

We bought shares in Manhattan Associates, a supply chain systems IT specialist. We think the company offers the market-leading IT solution for traditional retailers that will have to adapt to modern distribution – many retailers have postponed IT investment in light of disruption from e-commerce, and this created the share price disruption that allowed us to acquire the stock at, what we believe was, an attractive valuation.

Finally we added a new holding in Ball Corporation, the world's leading supplier of metal packaging to the beverage, food and household products markets. The company has a 135-year history, with a strong culture focused on innovation. It is the number one producer of cans globally, providing it with great scale advantages compared to most of its peers.

In addition, there were several changes to the portfolio resulting from corporate activity. US efficiency specialist Johnson Controls re-joined the portfolio, having completed its takeover of security systems maker Tyco, which was held in the fund (we originally sold Johnson to fund the purchase of Tyco). Johnson subsequently spun off its automotive seating and interiors business, Adient, and we sold the resultant small position in that company. The holding in biopharma business Shire was closed as well, having entered the portfolio after taking over rival Baxalta, which had been held in the fund.

In terms of other positions closed, we exited the fund's holding in cigarette maker British American Tobacco. This was in light of tougher regulations, new technologies – including 'vaping' – leading to increased competition and uncertainty, and a belief that tobacco companies were increasingly unlikely to produce the same level of returns as they have in the past. We also sold our shares in UK-listed bank Standard Chartered, whose share price had nearly doubled since its lows in February 2016, using the sale to fund the purchase of the aforementioned Ball Corp. Finally, we sold the fund's C shares in Alphabet (the parent of Google), but maintained the A shares (shares with voting rights) in the company.

Outlook

In recent months we have seen certain investment 'styles' outperforming the wider market; namely 'growth', particularly in the technology sector, and 'momentum', where investors focus in the short term on outperforming stocks. We think that this style performance has been exacerbated by machine trading, with algorithms making investment 'decisions' based on price movements, without regard for company fundamentals – we do not believe that this is the basis for long-term wealth creation. Again, we invest in quality companies that we believe have sustainable business models, and we invest in these companies for the long term.

We continue to carry out fundamental research on the companies within our watchlist – those stocks we would like to own when the timing and price is right – and have stayed vigilant of disruptions to their share prices that could result in attractive buying opportunities.

Despite the valuations in some areas of the market, particularly in the US, looking somewhat stretched, we think that our new purchases for the period under review demonstrate that, with hard work, there is still value to be found in that market. We will continue to stay disciplined, and focus on trying to create sustainable wealth for our customers.

In terms of the current portfolio, we remain confident in the quality of our holdings, and think that as the market increasingly focuses on fundamentals, the embedded value within the fund will be further realised. As long-term investors, our focus is on the ability of our holdings to generate long-term value for the fund, and we continue to be optimistic about their prospects.

John William Olsen

Fund manager

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

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

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

Investments

Portfolio statement

as at 31 August	2017	2017	2016
Holding	\$'000	%	%
Oil equipment, services & distribution	15,344	1.50	1.90
504,067 National Oilwell Varco	15,344	1.50	
Chemicals	47,558	4.64	2.85
154,239 Bayer	19,697	1.92	
145,307 Linde	27,861	2.72	
General industrials	71,594	6.98	9.13
928,537 Ball	36,687	3.58	
364,229 GEA Group	15,975	1.56	
166,644 Graco	18,932	1.84	
Electronic & electrical equipment	28,027	2.73	1.93
348,985 Schneider Electric	28,027	2.73	
Food producers	80,388	7.83	4.81
543,749 Nestlé (Regd.)	45,979	4.48	
581,020 Unilever CVA	34,409	3.35	
Household goods & home construction	18,490	1.80	2.05
196,501 Reckitt Benckiser	18,490	1.80	
Personal goods	26,374	2.57	2.72
300,933 Tiffany & Co	26,374	2.57	
Tobacco	0	0.00	2.99
Healthcare equipment & services	109,531	10.68	12.34
277,925 Becton Dickinson	54,996	5.36	
278,522 UnitedHealth Group	54,535	5.32	
Pharmaceuticals & biotechnology	107,066	10.43	10.53
6,586,907 Indivior	35,231	3.43	
1,312,866 Novo-Nordisk	62,054	6.05	
632,660 Teva Pharmaceuticals ADR	9,781	0.95	
General retailers	79,258	7.73	7.69
261,566 L Brands	9,427	0.92	
250,910 Stericycle	18,131	1.77	
2,178,629 WH Smith	51,700	5.04	
Media	26,653	2.60	2.68
262,955 Time Warner	26,653	2.60	

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Investments

Portfolio statement (continued)				
as at 31 August	2017	2017	2016	
Holding	\$'000	%	%	
Banks	47,124	4.59	6.63	
1,556,241 ING Groep	27,486	2.68		
131,598 M&T Bank	19,638	1.91		
Non-life insurance	67,482	6.58	8.37	
573,110 American International Group	34,490	3.36		
831,300 Tokio Marine Holding	32,992	3.22		
Financial services	94,624	9.22	9.01	
293,767 American Express	25,167	2.45		
766,096 Bank of New York Mellon	40,113	3.91		
497,616 Discover Financial Services	29,344	2.86		
Software & computer services	143,333	13.97	14.23	
38,409 Alphabet A	36,241	3.53		
196,507 Ansys	25,131	2.45		
135,022 International Business Machines	19,249	1.88		
476,723 Manhattan Associates	19,803	1.93		
579,854 Microsoft	42,909	4.18		
Technology hardware & equipment	26,821	2.61	0.00	
685,420 Johnson Controls International	26,821	2.61		
Portfolio of investments	989,667	96.46	99.86	
'AAA' rated money market funds ^[a]	41,266	4.02	0.13	
41,266,000 Northern Trust Global Fund - US dollar	41,266	4.02		
Total portfolio (notes 2c & 2d on page 6)	1,030,933	100.48	99.99	
Net other assets / (liabilities)	(4,960)	(0.48)	0.01	
Net assets attributable to shareholders	1,025,973	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.

Top ten portfolio transactions

for the year to 31 August 2017

	\$'000
Largest purchases	
Ball	37,871
Novo-Nordisk	29,945
Unilever CVA	25,018
Linde	24,314
Manhattan Associates	22,777
WH Smith	16,821
Schneider Electric	10,428
Nestlé (Regd.)	6,477
Indivior	6,185
Microsoft	5,663
Other purchases	65,876
Total purchases	251,375
Largest sales	
British American Tobacco	24,350
Graco	23,243
UnitedHealth Group	19,305
M&T Bank	13,895
Standard Chartered	13,137
Shire	9,753
Tokio Marine Holding	9,680
Ansys	7,183
Bayer	6,527
Microsoft	5,918
Other sales	38,109
Total sales	171,100

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

M&G Global Select Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

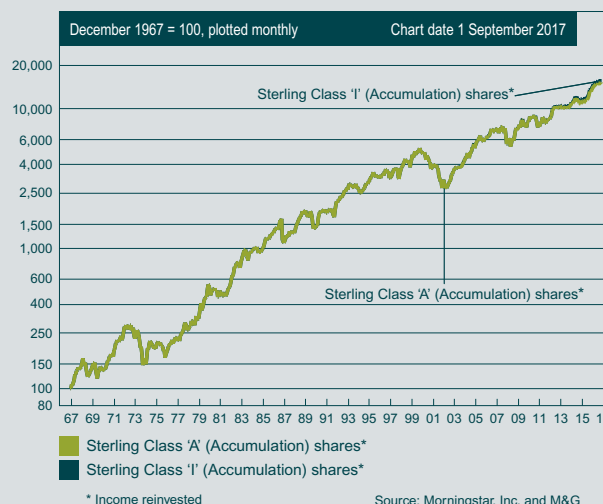
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 \$'000	2016 \$'000	2015 \$'000
Fund net asset value (NAV)	1,025,973	820,854	990,484

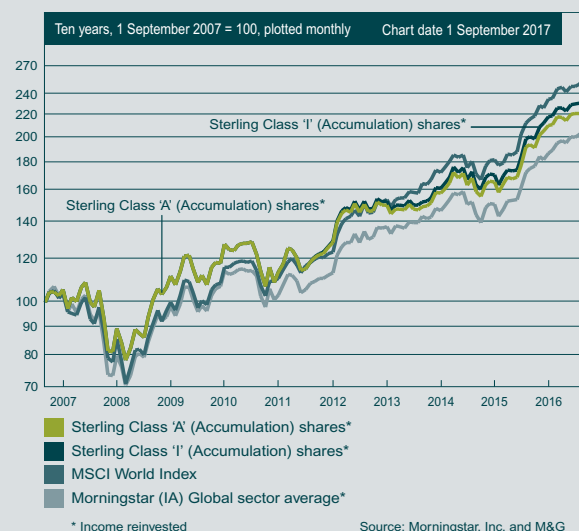
Performance since launch

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



Ten-year performance

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

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Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+4.1	+7.8	+9.1	+5.8 ^[c]
Class 'B'	+3.6	n/a	n/a	+7.1 ^[d]
Class 'C'	+5.2	+8.9	+10.2	+6.7 ^[c]
Sterling ^[e]				
Class 'A'	+14.2	+13.7	+12.7	+10.6 ^[f]
Class 'I'	+15.1	+14.6	+13.6	+13.8 ^[g]
Class 'R'	+14.8	+14.3	+13.3	+13.5 ^[g]
Class 'X'	+14.2	+13.7	+12.7	+16.8 ^[h]
US dollar ^[b]				
Class 'A'	+11.2	+4.4	+7.9	+9.2 ^[i]
Class 'C'	+12.4	+5.3	+8.9	+10.2 ^[i]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] 18 March 2016, the launch date of the share class.

^[e] Price to price with income reinvested.

^[f] 19 December 1967, the end of the initial offer period of the predecessor unit trust.

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

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

^[i] 19 December 2008, 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.

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Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.03	0.06	0.03	0.04
Taxes	0.02	0.01	0.01	0.01
Costs before dilution adjustments	0.05	0.07	0.04	0.05
Dilution adjustments ^[c]	(0.02)	(0.02)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.03	0.05	0.03	0.03
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.03	0.03	0.10	0.05

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 8 August 2014.

for the year to 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	2,317.94	2,216.87	1,921.71
Return before operating charges and after direct portfolio transaction costs	162.54	150.00	339.77
Operating charges	(47.38)	(42.97)	(42.10)
Return after operating charges	115.16	107.03	297.67
Distributions	(42.43)	(5.96)	(2.51)
Closing NAV	2,390.67	2,317.94	2,216.87
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.29	1.55	0.94
Dilution adjustments ^[a]	(0.60)	(0.43)	(0.23)
Total direct portfolio transaction costs	0.69	1.12	0.71
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+4.97	+4.83	+15.49
Historic yield ^[c]	1.79	0.26	0.11
Effect on yield of charges offset against capital	1.90	0.00	0.00
Other information			
Closing NAV (\$'000)	278	311	32
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.00
Number of shares	9,821	12,049	1,273
Highest share price (Euro ¢)	2,619.88	2,411.05	2,504.84
Lowest share price (Euro ¢)	2,210.40	1,922.28	1,794.42

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Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,332.46	2,225.04	1,926.61
Return before operating charges and after direct portfolio transaction costs	163.44	150.10	340.82
Operating charges	(47.55)	(42.68)	(42.39)
Return after operating charges	115.89	107.42	298.43
Distributions	0.00	(5.93)	(2.52)
Retained distributions	0.00	5.93	2.52
Closing NAV	2,448.35	2,332.46	2,225.04
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.30	1.54	0.90
Dilution adjustments ^[a]	(0.60)	(0.43)	(0.22)
Total direct portfolio transaction costs	0.70	1.11	0.68
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+4.97	+4.83	+15.49
Historic yield	0.00	0.25	0.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	72,904	69,391	107,662
Closing NAV percentage of total fund NAV (%)	7.11	8.45	10.87
Number of shares	2,511,233	2,670,087	4,289,801
Highest share price (Euro ¢)	2,636.30	2,419.91	2,511.38
Lowest share price (Euro ¢)	2,224.25	1,929.35	1,799.10

Euro Class 'B' Accumulation share performance

The share class was launched on 18 March 2016.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,068.43	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	75.58	79.72	n/a
Operating charges	(28.08)	(11.29)	n/a
Return after operating charges	47.50	68.43	n/a
Distributions	0.00	(2.39)	n/a
Retained distributions	0.00	2.39	n/a
Closing NAV	1,115.93	1,068.43	n/a
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.61	0.33	n/a
Dilution adjustments ^[a]	(0.28)	(0.09)	n/a
Total direct portfolio transaction costs	0.33	0.24	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	n/a
Operating charges	2.41	2.41	n/a
Return after operating charges	+4.45	+6.84	n/a
Historic yield	0.00	0.22	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (\$'000)	153	36	n/a
Closing NAV percentage of total fund NAV (%)	0.02	0.00	n/a
Number of shares	11,556	3,000	n/a
Highest share price (Euro ¢)	1,203.96	1,071.41	n/a
Lowest share price (Euro ¢)	1,017.96	977.52	n/a

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,556.18	2,444.07	2,116.95
Return before operating charges and after direct portfolio transaction costs	178.68	166.14	374.84
Operating charges	(24.62)	(22.87)	(22.27)
Return after operating charges	154.06	143.27	352.57
Distributions	(47.18)	(31.16)	(25.45)
Closing NAV	2,663.06	2,556.18	2,444.07
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.42	1.73	1.05
Dilution adjustments ^[a]	(0.66)	(0.48)	(0.26)
Total direct portfolio transaction costs	0.76	1.25	0.79
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+6.03	+5.86	+16.65
Historic yield ^[c]	1.78	1.22	1.04
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	24	30	6
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	745	1,045	245
Highest share price (Euro ¢)	2,912.52	2,664.43	2,776.78
Lowest share price (Euro ¢)	2,441.92	2,128.38	1,979.43

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,647.46	2,500.39	2,143.76
Return before operating charges and after direct portfolio transaction costs	185.65	170.21	379.23
Operating charges	(26.20)	(23.14)	(22.60)
Return after operating charges	159.45	147.07	356.63
Distributions	(25.07)	(31.85)	(25.86)
Retained distributions	25.07	31.85	25.86
Closing NAV	2,806.91	2,647.46	2,500.39
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.50	1.74	1.01
Dilution adjustments ^[a]	(0.70)	(0.48)	(0.25)
Total direct portfolio transaction costs	0.80	1.26	0.76
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+6.02	+5.88	+16.64
Historic yield	0.90	1.20	1.04
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	50,594	31,717	28,623
Closing NAV percentage of total fund NAV (%)	4.93	3.86	2.89
Number of shares	1,520,123	1,075,212	1,014,909
Highest share price (Euro ¢)	3,016.43	2,726.38	2,811.33
Lowest share price (Euro ¢)	2,529.14	2,177.87	2,004.46

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Specific share class performance

Sterling Class 'A' Income share performance

The share class was launched on 19 December 1967.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	336.76	278.33	261.38
Return before operating charges and after direct portfolio transaction costs	54.13	65.00	22.39
Operating charges	(6.12)	(4.91)	(4.70)
Return after operating charges	48.01	60.09	17.69
Distributions	(6.70)	(1.66)	(0.74)
Closing NAV	378.07	336.76	278.33

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.20	0.12
Dilution adjustments ^[a]	(0.09)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.10	0.14	0.09

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+14.26	+21.59	+6.77
Historic yield ^[c]	1.79	0.50	0.27
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (\$'000)	486,113	462,473	532,345
Closing NAV percentage of total fund NAV (%)	47.38	56.34	53.75
Number of shares	99,859,434	104,538,931	124,295,740
Highest share price (UK p)	395.79	343.72	309.57
Lowest share price (UK p)	326.49	259.21	244.89

Sterling Class 'A' Accumulation share performance

The share class was launched on 19 December 1967.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	654.86	538.55	504.41
Return before operating charges and after direct portfolio transaction costs	105.22	125.80	43.19
Operating charges	(11.88)	(9.49)	(9.05)
Return after operating charges	93.34	116.31	34.14
Distributions	(1.43)	(3.20)	(1.36)
Retained distributions	1.43	3.20	1.36
Closing NAV	748.20	654.86	538.55

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.37	0.39	0.22
Dilution adjustments ^[a]	(0.17)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.20	0.28	0.17

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+14.25	+21.60	+6.77
Historic yield	0.19	0.49	0.25
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	159,000	132,082	227,053
Closing NAV percentage of total fund NAV (%)	15.50	16.09	22.92
Number of shares	16,504,330	15,353,780	27,398,188
Highest share price (UK p)	769.64	665.09	597.42
Lowest share price (UK p)	634.88	501.57	472.61

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,608.70	1,329.29	1,248.55
Return before operating charges and after direct portfolio transaction costs	259.24	312.00	107.00
Operating charges	(16.10)	(12.98)	(12.43)
Return after operating charges	243.14	299.02	94.57
Distributions	(32.15)	(19.61)	(13.83)
Closing NAV	1,819.69	1,608.70	1,329.29

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.92	0.98	0.56
Dilution adjustments ^[a]	(0.43)	(0.27)	(0.14)
Total direct portfolio transaction costs	0.49	0.71	0.42

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+15.11	+22.49	+7.57
Historic yield ^[c]	1.78	1.23	1.04
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (\$'000)	24,463	23,534	15,100
Closing NAV percentage of total fund NAV (%)	2.39	2.87	1.52
Number of shares	1,044,084	1,113,639	738,241
Highest share price (UK p)	1,902.09	1,653.19	1,485.66
Lowest share price (UK p)	1,560.00	1,242.00	1,170.87

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,693.41	1,382.15	1,284.81
Return before operating charges and after direct portfolio transaction costs	272.91	324.74	110.13
Operating charges	(16.97)	(13.48)	(12.79)
Return after operating charges	255.94	311.26	97.34
Distributions	(17.41)	(20.40)	(14.26)
Retained distributions	17.41	20.40	14.26
Closing NAV	1,949.35	1,693.41	1,382.15

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.97	1.01	0.57
Dilution adjustments ^[a]	(0.45)	(0.28)	(0.14)
Total direct portfolio transaction costs	0.52	0.73	0.43

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+15.11	+22.52	+7.58
Historic yield	0.90	1.21	1.03
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	92,385	79,279	53,096
Closing NAV percentage of total fund NAV (%)	9.00	9.66	5.36
Number of shares	3,680,718	3,563,837	2,496,472
Highest share price (UK p)	2,002.25	1,719.29	1,528.83
Lowest share price (UK p)	1,642.16	1,291.65	1,204.97

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Specific share class performance

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	160.86	132.93	124.85
Return before operating charges and after direct portfolio transaction costs	25.91	31.15	10.70
Operating charges	(2.05)	(1.65)	(1.58)
Return after operating charges	23.86	29.50	9.12
Distributions	(3.21)	(1.57)	(1.04)
Closing NAV	181.51	160.86	132.93
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.10	0.06
Dilution adjustments ^[a]	(0.04)	(0.03)	(0.01)
Total direct portfolio transaction costs	0.05	0.07	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.16	1.17	1.16
Return after operating charges	+14.83	+22.19	+7.30
Historic yield ^[c]	1.78	0.98	0.78
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (\$'000)	425	342	300
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.03
Number of shares	181,866	161,836	146,870
Highest share price (UK p)	189.83	164.94	148.34
Lowest share price (UK p)	155.99	124.07	117.05

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	167.59	137.13	127.83
Return before operating charges and after direct portfolio transaction costs	26.98	32.16	10.91
Operating charges	(2.13)	(1.70)	(1.61)
Return after operating charges	24.85	30.46	9.30
Distributions	(1.27)	(1.62)	(1.05)
Retained distributions	1.27	1.62	1.05
Closing NAV	192.44	167.59	137.13
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.10	0.06
Dilution adjustments ^[a]	(0.04)	(0.03)	(0.01)
Total direct portfolio transaction costs	0.06	0.07	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.16	1.17	1.16
Return after operating charges	+14.83	+22.21	+7.28
Historic yield	0.67	0.97	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	200	289	365
Closing NAV percentage of total fund NAV (%)	0.02	0.04	0.04
Number of shares	80,949	131,175	172,592
Highest share price (UK p)	197.76	170.17	151.83
Lowest share price (UK p)	162.51	128.01	119.84

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	336.74	278.31	261.34
Return before operating charges and after direct portfolio transaction costs	54.11	65.00	22.40
Operating charges	(6.11)	(4.91)	(4.70)
Return after operating charges	48.00	60.09	17.70
Distributions	(6.70)	(1.66)	(0.73)
Closing NAV	378.04	336.74	278.31
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.20	0.12
Dilution adjustments ^[a]	(0.09)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.10	0.14	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+14.25	+21.59	+6.77
Historic yield ^[c]	1.79	0.50	0.26
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	11,020	11,681	13,029
Closing NAV percentage of total fund NAV (%)	1.07	1.42	1.32
Number of shares	2,263,895	2,640,665	3,042,241
Highest share price (UK p)	395.77	343.69	309.53
Lowest share price (UK p)	326.47	259.19	244.86

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	649.36	534.02	500.18
Return before operating charges and after direct portfolio transaction costs	104.35	124.75	42.79
Operating charges	(11.79)	(9.41)	(8.95)
Return after operating charges	92.56	115.34	33.84
Distributions	(1.41)	(3.18)	(1.18)
Retained distributions	1.41	3.18	1.18
Closing NAV	741.92	649.36	534.02
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.37	0.39	0.22
Dilution adjustments ^[a]	(0.17)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.20	0.28	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+14.25	+21.60	+6.77
Historic yield	0.19	0.49	0.22
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	7,156	7,240	10,013
Closing NAV percentage of total fund NAV (%)	0.70	0.88	1.01
Number of shares	749,083	848,727	1,218,384
Highest share price (UK p)	763.18	659.50	592.40
Lowest share price (UK p)	629.55	497.35	468.64

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Financial highlights

Specific share class performance

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,919.15	1,858.21	1,888.08
Return before operating charges and after direct portfolio transaction costs	263.32	101.02	14.32
Operating charges	(38.60)	(35.19)	(37.27)
Return after operating charges	224.72	65.83	(22.95)
Distributions	(37.39)	(4.89)	(6.92)
Closing NAV	2,106.48	1,919.15	1,858.21

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.05	1.27	0.80
Dilution adjustments ^[a]	(0.49)	(0.35)	(0.19)
Total direct portfolio transaction costs	0.56	0.92	0.61

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+11.71	+3.54	-1.22
Historic yield ^[c]	1.78	0.25	0.37
Effect on yield of charges offset against capital	1.90	0.00	0.00

Other information

Closing NAV (\$'000)	350	318	308
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.03
Number of shares	16,595	16,595	16,595
Highest share price (US ¢)	2,192.35	1,944.85	2,017.28
Lowest share price (US ¢)	1,823.71	1,619.58	1,703.81

US dollar Class 'A' Accumulation share performance

The share class was launched on 19 December 2008.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,935.59	1,869.25	1,892.54
Return before operating charges and after direct portfolio transaction costs	265.59	101.73	13.31
Operating charges	(38.96)	(35.39)	(36.60)
Return after operating charges	226.63	66.34	(23.29)
Distributions	0.00	(4.89)	(6.94)
Retained distributions	0.00	4.89	6.94
Closing NAV	2,162.22	1,935.59	1,869.25

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.06	1.27	0.78
Dilution adjustments ^[a]	(0.49)	(0.35)	(0.19)
Total direct portfolio transaction costs	0.57	0.92	0.59

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+11.71	+3.55	-1.23
Historic yield	0.00	0.25	0.01
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	1,969	1,713	2,182
Closing NAV percentage of total fund NAV (%)	0.19	0.21	0.22
Number of shares	91,041	88,496	116,750
Highest share price (US ¢)	2,211.12	1,956.52	2,021.73
Lowest share price (US ¢)	1,839.33	1,629.31	1,707.79

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	2,017.65	1,953.07	1,978.04
Return before operating charges and after direct portfolio transaction costs	278.21	106.87	13.51
Operating charges	(18.73)	(17.42)	(17.46)
Return after operating charges	259.48	89.45	(3.95)
Distributions	(39.72)	(24.87)	(21.02)
Closing NAV	2,237.41	2,017.65	1,953.07

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.98	1.31	0.69
Dilution adjustments ^[a]	(0.46)	(0.36)	(0.17)
Total direct portfolio transaction costs	0.52	0.95	0.52

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	0.88	0.90	0.93
Return after operating charges	+12.86	+4.58	-0.20
Historic yield ^[c]	1.78	1.23	1.08
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (\$'000)	6	5	5
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	259	259	259
Highest share price (US ¢)	2,325.87	2,064.21	2,132.55
Lowest share price (US ¢)	1,920.72	1,709.73	1,787.32

US dollar Class 'C' Accumulation share performance

The share class was launched on 19 December 2008.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	2,083.13	1,991.74	2,002.88
Return before operating charges and after direct portfolio transaction costs	288.49	109.55	6.43
Operating charges	(21.17)	(18.16)	(17.57)
Return after operating charges	267.32	91.39	(11.14)
Distributions	(20.99)	(25.03)	(21.28)
Retained distributions	20.99	25.03	21.28
Closing NAV	2,350.45	2,083.13	1,991.74

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.21	1.36	0.77
Dilution adjustments ^[a]	(0.56)	(0.38)	(0.19)
Total direct portfolio transaction costs	0.65	0.98	0.58

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.03	0.05	0.03
Operating charges	0.91	0.92	0.93
Return after operating charges	+12.83	+4.59	-0.56
Historic yield	0.90	1.20	1.03
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	118,933	413	365
Closing NAV percentage of total fund NAV (%)	11.59	0.06	0.04
Number of shares	5,060,031	19,806	18,288
Highest share price (US ¢)	2,400.91	2,105.26	2,151.74
Lowest share price (US ¢)	1,983.09	1,743.87	1,809.67

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		89,424		23,336
Revenue	5	17,977		21,033	
Expenses	6	(13,128)		(14,378)	
Net revenue / (expense) before taxation		4,849		6,655	
Taxation	7	(1,760)		(1,627)	
Net revenue / (expense) after taxation			3,089		5,028
Total return before distributions			92,513		28,364
Distributions	8		(10,963)		(5,028)
Change in net assets attributable to shareholders from investment activities			81,550		23,336

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		820,854		990,484
Amounts received on issue of shares	219,258		146,864	
Amounts paid on cancellation of shares	(98,602)		(342,269)	
		120,656		(195,405)
Dilution adjustments		254		229
Change in net assets attributable to shareholders from investment activities (see above)		81,550		23,336
Retained distributions on Accumulation shares		2,657		2,206
Unclaimed distributions		2		4
Closing net assets attributable to shareholders		1,025,973		820,854

Balance sheet

as at 31 August	Note	2017 \$'000	2016 \$'000
Assets			
Fixed assets			
Investments		1,030,933	820,801
Current assets			
Debtors	9	4,302	4,328
Cash and bank balances	10	1,709	504
Total assets		1,036,944	825,633
Liabilities			
Creditors			
Bank overdrafts		0	(186)
Distribution payable		(9,265)	(2,634)
Other creditors	11	(1,706)	(1,959)
Total liabilities		(10,971)	(4,779)
Net assets attributable to shareholders		1,025,973	820,854

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's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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 31 August	2017 \$'000	2016 \$'000
Non-derivative securities	89,871	25,258
Currency gains / (losses)	(442)	(1,916)
Transaction charges	(5)	(6)
Net capital gains / (losses)	89,424	23,336

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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 pages 112 and 113.

for the year to 31 August	2017 \$'000	% of transaction	2016 \$'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	251,088		109,544	
Commissions	127	0.05	156	0.14
Taxes	160	0.06	43	0.04
Other transaction types				
Corporate actions	0		2,321	
Total purchases after transaction costs	251,375		112,064	

b) Sales				
Equities				
Equities before transaction costs	171,259		272,953	
Commissions	(157)	0.09	(356)	0.13
Taxes	(2)	0.00	(69)	0.03
Other transaction types				
Corporate actions	0		23,635	
Total sales after transaction costs	171,100		296,163	

c) Direct portfolio transaction costs	2017 \$'000	% of average NAV	2016 \$'000	% of average NAV
Commissions paid				
Equities	284	0.03	512	0.06
Taxes paid				
Equities	162	0.02	112	0.01
Total direct portfolio transaction costs [a]	446	0.05	624	0.07

d) Indirect portfolio transaction costs	%	%
Portfolio dealing spread [b]	0.03	0.03

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

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

5 Revenue

for the year to 31 August	2017 \$'000	2016 \$'000
Bank interest	53	3
Dividends from equity investments: non-taxable	16,303	19,873
Dividends from equity investments: taxable	1,127	1,132
Interest distributions	185	25
Stock dividends	309	0
Total revenue	17,977	21,033

6 Expenses

for the year to 31 August	2017 \$'000	2016 \$'000
Payable to the ACD or associate		
Annual management charge	11,741	12,857
Administration charge	1,281	1,353
	13,022	14,210
Payable to the Depositary or associate		
Depositary's charge (including VAT)	56	61
Other expenses		
Audit fee (including VAT)	10	11
Interest payable	2	3
Legal fees	1	1
Safe custody charge	40	44
Tax fees (including VAT)	1	52
	54	111
VAT recoverable		
Current year	0	(2)
Prior year	(4)	(2)
	(4)	(4)
Total expenses	13,128	14,378

7 Taxation

for the year to 31 August	2017 \$'000	2016 \$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	1,760	1,627
Deferred tax (note 7c)	0	0
Total taxation	1,760	1,627
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	4,849	6,655
Corporation tax at 20%	970	1,331
Effects of:		
Dividends from equity investments: non-taxable	(3,261)	(3,975)
Stock dividends not taxable	(62)	0
Current year expenses not utilised	2,375	2,664
Withholding tax	1,760	1,627
Withholding tax expensed	(22)	(20)
Total tax charge (note 7a)	1,760	1,627
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 \$27,044,000 (2016: \$24,669,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

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8 Distributions

for the year to 31 August	2017		2016	
	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Dividend distributions				
Final	9,265	2,657	2,634	2,206
Total net distributions		11,922		4,840
Income deducted on cancellation of shares		231		252
Income received on issue of shares		(1,190)		(64)
Distributions		10,963		5,028
Net revenue / (expense) per statement of total return		3,089		5,028
Expenses offset against capital		8,149		0
Stock dividends not distributed		(309)		0
Income deficit transferred to capital		34		0
Distributions		10,963		5,028

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 August	2017 \$'000	2016 \$'000
Amounts receivable on issues of shares	31	219
Currency deals outstanding	104	343
Distributions receivable	39	2
Dividends receivable	1,240	1,262
Withholding tax recoverable	2,888	2,502
Total debtors	4,302	4,328

10 Cash and bank balances

as at 31 August	2017 \$'000	2016 \$'000
Cash held as bank balances	1,709	504
Total cash and bank balances	1,709	504

11 Other creditors

as at 31 August	2017 \$'000	2016 \$'000
ACD's annual management charge payable	632	506
Administration charge payable	72	54
Amounts payable on cancellation of shares	341	454
Corporation tax payable	534	533
Currency deals outstanding	104	343
Expenses payable	23	69
Total other creditors	1,706	1,959

12 Contingent assets, liabilities and outstanding commitments

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

The fund has not recognised a contingent asset of \$533,525. As a result of the European Court of Justice (ECJ) ruling in November 2012 and High Court judgements in October 2013 in relation to Prudential Assurance Co LTD v Revenue & Customs Commissioner, the fund can potentially recover UK corporation tax suffered on overseas dividends received before July 2009 (overseas dividends received post 2009 are not taxable). Full recovery of this asset is not certain, however, an estimated accrual is included within the daily price of the fund shares. The contingent asset will be reflected in the financial statements when receipt of the reclaims becomes virtually certain.

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Income	12,049	5,063	(7,291)	9,821
Class 'A' Accumulation	2,670,087	273,792	(432,646)	2,511,233
Class 'B' Accumulation	3,000	8,556	0	11,556
Class 'C' Income	1,045	0	(300)	745
Class 'C' Accumulation	1,075,212	535,391	(90,480)	1,520,123
Sterling				
Class 'A' Income	104,538,931	3,958,263	(8,637,760)	99,859,434
Class 'A' Accumulation	15,353,780	4,668,319	(3,517,769)	16,504,330
Class 'I' Income	1,113,639	66,495	(136,050)	1,044,084
Class 'I' Accumulation	3,563,837	400,870	(283,989)	3,680,718
Class 'R' Income	161,836	45,686	(25,656)	181,866
Class 'R' Accumulation	131,175	0	(50,226)	80,949
Class 'X' Income	2,640,665	23,022	(399,792)	2,263,895
Class 'X' Accumulation	848,727	38,532	(138,176)	749,083
US dollar				
Class 'A' Income	16,595	0	0	16,595
Class 'A' Accumulation	88,496	16,343	(13,798)	91,041
Class 'C' Income	259	0	0	259
Class 'C' Accumulation	19,806	5,064,123	(23,898)	5,060,031

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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	1.75
Class 'B'	1.25	n/a	2.25
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.75
Class 'C'	3.25	n/a	0.75

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

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 43.26% (2016: 41.84%) of the fund's shares.

16 Events after the balance sheet date

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

17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August	Assets 2017	Liabilities 2017	Assets 2016	Liabilities 2016
Basis of valuation	\$'000	\$'000	\$'000	\$'000
Level 1	989,667	0	819,787	0
Level 2	41,266	0	1,014	0
Level 3	0	0	0	0
	1,030,933	0	820,801	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 \$49,483,000 (2016: \$40,989,000). A five per cent decrease would have an equal and opposite effect.

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20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by \$51,299,000 (2016: \$41,043,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017 \$'000	2016 \$'000
Currency exposure in respect of the fund		
Danish krone	62,251	25,836
Euro	155,142	76,715
Japanese yen	32,992	37,445
Sterling	96,355	112,979
Swiss franc	46,978	40,315
Taiwan dollar	615	504
US dollar	631,640	527,060
Total	1,025,973	820,854

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	27.3998	15.0279	42.4277	5.9560

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	0.0000	0.0000	0.0000	5.9254

Euro Class 'B' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	0.0000	0.0000	0.0000	2.3860

Euro Class 'C' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	47.1779	0.0000	47.1779	31.1622

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	15.3703	9.6964	25.0667	31.8450

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	3.7400	2.9624	6.7024	1.6632

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	0.4710	0.9540	1.4250	3.1983

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	22.2268	9.9240	32.1508	19.6114

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23 Dividend distribution tables (continued)

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	8.7801	8.6283	17.4084	20.4006

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	2.4966	0.7141	3.2107	1.5700

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	1.2693	0.0000	1.2693	1.6186

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	5.4122	1.2897	6.7019	1.6637

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	1.4133	0.0000	1.4133	3.1818

US dollar Class 'A' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
Final	37.3880	0.0000	37.3880	4.8897

US dollar Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
Final	0.0000	0.0000	0.0000	4.8868

US dollar Class 'C' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
Final	39.7201	0.0000	39.7201	24.8748

US dollar Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
Final	3.3591	17.6356	20.9947	25.0307

M&G Global Select Fund

Financial statements and notes

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M&G Japan Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests in a wide range of securities of Japanese issuers, covering most aspects of the economy. Its sole objective is long term capital growth. Income is not a consideration when investments are selected.

Investment approach

The M&G Japan Fund screens a wide investment universe to form a concentrated portfolio of Japanese companies that are trading on low valuations relative to their history and the market. The fund aims to achieve sound capital growth over the long term.

The fund manager applies disciplined and rigorous fundamental analysis during the selection process to ensure a high level of conviction around the valuation for each of the companies held in the fund. The portfolio maintains diversification by typically holding between 30 and 50 stocks.

The fund holds shares in companies that have attractive valuations relative to the earnings they are likely to generate over the medium to long term. These companies are quite often out of favour with the market for one reason or another. The fund's investment strategy therefore tends to be contrarian in nature.

The fund manager sees investing as a price-sensitive process that takes advantage of the mis-pricing of a company's shares by the market. Whilst recognising that markets are generally efficient, the fund manager believes that market mis-pricings can and often do occur because human characteristics (such as fear and greed) may prevent investors from always assessing investments rationally.

As a result, market prices do not always reflect fundamental values since they may over-shoot and under-shoot. For example, shares in companies become mis-priced when investors are willing to pay a high price for the 'comfort' of strong near-term earnings momentum and to be associated with success, whilst they will sell 'unfashionable' securities regardless of inherent attractiveness, such as healthy balance sheets and the likely level of longer term earnings.

Such behavioural biases are evident in Japan's equity markets today and can be systemically exploited. The fund manager aims to take advantage of these biases by adopting a disciplined, long-term investment approach.

Risk profile

The fund invests in the shares of companies listed in Japan and is, therefore, subject to the price volatility of the Japanese stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on companies that are deemed to be undervalued, 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 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 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Japan Fund's total return (the combination of income and growth of capital) was positive across all its share classes.* The fund's returns were ahead of the comparative index, the MSCI Japan Index. Over the 12 months, returns from the index were 15.9%, 6.6% and 13.1% in sterling, euros and US dollars respectively.

Over five years and since launch, the fund has achieved its objective of long-term capital growth.

Investment performance

During the 12 months under review, the fund generated strong returns and outperformed a rising Japanese stockmarket. Japanese shares were buoyed by a combination of positive factors, namely supportive monetary policy from the Bank of Japan (the central bank is holding down long-term interest rates, which should encourage borrowing); better-than-expected economic growth in the world's second-largest economy, China; and in the US, the election of Donald Trump as president, which raised expectations that more business-friendly policies and less regulation would be introduced, which should boost the economy.

More recently, data showed that the Japanese economy recorded its sixth consecutive quarter of growth in the second quarter of 2017 – the longest unbroken stretch in more than a decade. Meanwhile, the latest quarterly financial results season demonstrated improving profitability at companies and an increasing willingness by them to return the resultant cashflow to shareholders.

Despite the solid rise in the overall stockmarket, we have seen large fluctuations in investor sentiment throughout the review period. Events like the Bank of Japan's introduction of negative interest rates (a headwind for financials), large gyrations in the yen (which can affect the profitability of exporters), the election of Donald Trump and more recently the escalation of tensions with North Korea have led to big swings in share prices.

M&G Japan Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

In our view, these large price fluctuations are an indication that other investors are letting emotions drive their investment decisions. This has provided us with profitable opportunities. Over the review period, we were able to take advantage of 'episodes' occurring in a wide range of shares from different sectors.

Industrial stocks featured prominently amongst the fund's contributors. Sumitomo Heavy Industries announced better-than-expected results. The company reported margin improvement in its construction machinery business, due to an increase in demand for hydraulic excavators and an increase in orders at its precision machinery business. In the precision machinery division, demand was firm for injection-moulding equipment in Europe and electric and electronics related products in Asia.

Meanwhile, Asahi Glass raised guidance for full-year operating profits and announced plans for a substantial share buyback; its shares rallied on the news. There are signs of improved profitability in the core float glass business and the company is also benefiting from stabilising LCD glass substrate prices and strong volume growth, as the unit size of LCD glass is increasing.

Shares in diversified technology and industrial company Hitachi also rose. In May 2017, the company increased guidance for the current financial year and is forecasting a substantial rise in net income.

However, other industrial holdings, including Toshiba and Chiyoda, contributed negatively to returns. Shares in Toshiba fell sharply on concerns over the size of a writedown at its US nuclear construction unit. Even before the writedown at its nuclear division, we had begun reducing the fund's exposure to the stock on concerns Toshiba's management was not exercising sufficient discipline with its capital expenditure plans. We have since closed the position as we could not get comfortable with the level of earnings the company will be able to sustain going forward, given its high level of gearing and because it is having to dispose of some of its core assets.

Chiyoda is an engineering company specialising in industrial facilities, particularly oil refineries and LNG (liquid natural gas) refineries. The company recently announced additional costs related to a delay in its Cameron LNG project in the US. In addition, some investors have concerns over the future of LNG, given the increased interest in commercial battery power. Despite the disappointing news in the US, we believe the new management team is beginning to improve the quality of the company's order book and restructure its business. Furthermore, as the company has a strong balance sheet, it has the resources to do this.

In the technology sector, Wacom was the top contributor. The company is a manufacturer of digital input devices, such as graphic tablets, which are used in the creative and design industries. Wacom is recording strong sales growth in its branded products division, including higher demand for its stylus input systems. We are expecting operating profits to recover, partly on a reduction in selling,

general and administrative expenses in relation to its investment in global IT infrastructure. In our view, the stock is undervalued and other investors are not fully pricing in the company's potential as the top producer in the niche market of electronic styluses.

Semiconductor business Sanken Electric also aided performance. When we first invested in Sanken, the company was unloved and dismissed by most investors. This was partly due to the company's ability to miss management's forecasts for several years in a row. A new chief executive was brought in in 2015 and since then, working capital management has improved, Sanken's loss-making power module division has returned to profitability and there has been a positive shift towards higher margin products.

Investment activities

Investment activity during the review period focused on the recycling of cash out of businesses where share prices have appreciated materially, and topping up holdings which we think present better value.

Positions that were closed included technology company Advantest, which has performed very well for the fund, and telecommunication business Nippon Telegraph and Telephone. Denki Kogyo, a company that manufactures and installs telecommunication antennae for mobile communication facilities, and Orix, a financial services company, also left the portfolio. In addition, we exited the holding in Xebio, a retailer specialising in sports equipment and clothing, as it is facing increased competition from other sports retailers, particularly ones with a strong internet offering.

We also closed positions in Rohm and Shimamura, as other investors are beginning to price in some of the underlying improvements at their respective businesses. Rohm has done very well for the fund recently, but over the past year the benefits the semiconductor manufacturer is enjoying from the current capex cycle has been virtually priced in. Retailer Shimamura was sold as we believe some of the other holdings from the sector have greater upside potential.

Towards the end of the review period, we closed the fund's position in KYB, a manufacturer of shock absorbers and hydraulic components, as we believe the shares are fully valued after a period of strong performance.

At the same time, we initiated a position in Seiko, a manufacturer of watches and electronic devices. The company faces a number of headwinds, including reduced demand for watches following the clampdown on gifting in China, elevated inventory levels, high gold prices and a stronger yen. Seiko also needs to adapt to the threat from smartwatches. We accept the short-term outlook for Seiko is uncertain and recognise that margins are under pressure. However, in our view, investors are misinterpreting Seiko's challenges and therefore, we believe the shares are undervalued.

We also initiated positions in NTT Urban Development and Nomura Real Estate, as we believe there is an 'episode' (occasions where prices move for non-fundamental reasons) currently occurring in the construction and real estate sectors in Japan. More recently, Chiyoda joined the portfolio.

M&G Japan Fund

Authorised Corporate Director's Report

Investment review

Outlook

We believe the valuation of Japanese shares remains compelling. The Japanese stockmarket at present offers an earnings yield (the ratio of company profits after tax to company size), which remains attractive relative to other developed market equities and the current yield on 10-year Japanese government bonds, which is close to zero.

However, we would argue that it is not just valuations which make investing in Japanese equities convincing. There are some fundamental changes at a corporate level which should drive both profitability and shareholder returns. In our opinion, the changes happening in Japan today are structural, not cyclical.

Changes to the stewardship and governance codes governing investors have resulted in their increased engagement with companies. In turn, companies have become more focused on shareholder value and have significantly improved both their cost structures and profitability. This was particularly evident in the most recent results season – dividends and share buybacks together are now well ahead of the levels seen before the global financial crisis.

In our opinion, the high price-to-earnings multiples seen, for example, in the consumer staples sector currently, indicate that investors are paying over the odds for safe earnings streams. At the same time, investors are avoiding names perceived to be risky, such as financials, despite these cyclical companies trading on steep discounts and enjoying improving earnings trends. (Cyclical companies are businesses whose earnings tend to be more volatile throughout the economic cycle.)

While the characteristics of these 'stable earners' have not materially changed over time, their valuation has. In contrast, the prospective return from owning economically sensitive names, such as financials, has two important anchors: the stocks are cheap relative to their trend earnings and they have substantially improved both profits and shareholder returns. Moreover, these companies have managed to do this during a time of relatively muted economic growth.

At the individual stock level, any sign that reported earnings have deviated from analysts' expectations, either on the upside or downside, has been reflected in significant price volatility. The resultant irrational price behaviour presents significant opportunities, as valuations across sectors become stretched.

Johan Du Preez Fund manager

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

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

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

Investments

Portfolio statement

as at 31 August Holding	2017 ¥000	2017 %	2016 %
Equities	72,701,204	97.93	99.59
Chemicals	4,074,715	5.49	5.16
372,900 DIC	1,446,852	1.95	
1,227,400 JSR	2,627,863	3.54	
Forestry & paper	0	0.00	1.36
Industrial metals & mining	2,270,866	3.06	2.53
1,046,000 JFE Holdings	2,270,866	3.06	
Construction & materials	3,160,224	4.26	6.87
309,600 Asahi Glass	1,326,636	1.79	
636,000 LIXIL Group	1,833,588	2.47	
General industrials	0	0.00	4.06
Electronic & electrical equipment	6,406,010	8.63	6.55
4,689,000 Hitachi	3,547,697	4.78	
5,626,600 Wacom	2,858,313	3.85	
Industrial engineering	5,249,863	7.07	5.43
3,774,000 Chiyoda	2,154,954	2.90	
493,300 Ebara	1,677,220	2.26	
1,731,000 Sumitomo Heavy Industries	1,417,689	1.91	
Industrial transportation	2,229,568	3.00	4.30
6,334,000 Mitsui O.S.K. Lines	2,229,568	3.00	
Support services	2,263,046	3.05	3.74
1,454,400 Sumitomo	2,263,046	3.05	
Automobiles & parts	7,797,305	10.50	9.55
1,138,400 Honda Motor	3,506,272	4.72	
1,667,800 Mazda Motor	2,699,334	3.64	
924,600 Sumitomo Electric Industries	1,591,699	2.14	
Leisure goods	5,406,649	7.28	3.71
1,476,200 Nikon	2,673,398	3.60	
1,865,700 Panasonic	2,733,251	3.68	
Personal goods	972,036	1.31	1.70
1,206,000 Onward Holdings	972,036	1.31	
Pharmaceuticals & biotechnology	2,790,248	3.76	3.59
459,300 Takeda Pharmaceutical	2,790,248	3.76	
General retailers	4,101,142	5.52	3.94
726,500 Dena	1,708,002	2.30	
229,900 Komeri	732,232	0.98	
453,800 United Arrows	1,660,908	2.24	
Media	1,572,351	2.12	1.72
957,000 Fuji Media Holdings	1,572,351	2.12	
Fixed line telecommunications	0	0.00	0.19
Banks	8,230,382	11.08	14.20
5,275,900 Mitsubishi UFJ Financial	3,555,957	4.79	
664,600 Sumitomo Mitsui Financial	2,734,164	3.68	
510,058 Sumitomo Mitsui Trust Holdings	1,940,261	2.61	
Life insurance	1,868,563	2.52	3.11
1,239,100 T&D Holdings	1,868,563	2.52	

M&G Japan Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 31 August	2017	2017	2016
Holding	¥'000	%	%
Real estate investment & services	1,559,257	2.10	0.00
687,200 Nomura Real Estate Holding	1,559,257	2.10	
Real estate investment trusts	1,029,526	1.39	0.00
967,600 NTT Urban Development	1,029,526	1.39	
Financial services	2,739,105	3.69	4.90
4,474,200 Nomura Holdings	2,739,105	3.69	
Technology hardware & equipment	8,980,348	12.10	12.98
10,224,000 NEC	2,975,184	4.01	
2,696,700 Ricoh	2,963,673	3.99	
2,575,000 Sanken Electric	1,439,425	1.94	
3,217,000 Seiko Holdings	1,602,066	2.16	
Futures contracts	2,453	0.00	0.00
115 TOPIX Index Future Sep 2017	2,453	0.00	
Portfolio of investments	72,703,657	97.93	99.59
'AAA' rated money market funds ^[a]	10,110	0.01	0.00
71,000 Northern Trust Global Fund - Sterling	10,110	0.01	
Total portfolio (notes 2c & 2d on page 6)	72,713,767	97.94	99.59
Net other assets / (liabilities)	1,531,946	2.06	0.41
Net assets attributable to shareholders	74,245,713	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.

Top ten portfolio transactions

for the year to 31 August 2017

Largest purchases	¥'000
Mazda Motor	2,608,095
Chiyoda	2,562,084
Panasonic	2,463,599
Honda Motor	1,901,616
Dena	1,800,912
Seiko Holdings	1,588,549
United Arrows	1,566,099
Mitsubishi UFJ Financial	1,527,313
NEC	1,431,018
Nomura Holdings	1,404,140
Other purchases	24,155,354
Total purchases	43,008,779
Largest sales	¥'000
Rohm	2,161,235
Toshiba	1,653,646
Asahi Glass	1,543,042
Sumitomo Heavy Industries	1,115,425
KYB	1,078,227
Oji Paper	835,418
Shimamura	818,030
Orix	726,545
Sumitomo Electric Industries	661,589
Sumitomo	641,067
Other sales	7,078,533
Total sales	18,312,757

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

M&G Japan 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 (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 ¥'000	2016 ¥'000	2015 ¥'000
Fund net asset value (NAV)	74,245,713	37,289,675	40,187,792

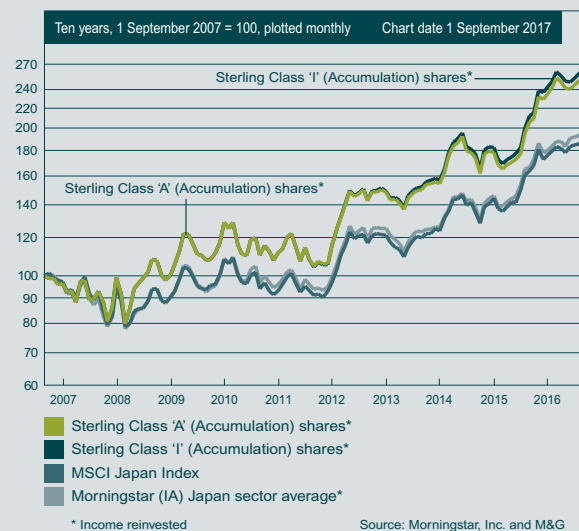
Performance since launch

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



Ten-year performance

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Japan Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+13.4	+13.4	+15.9	+3.5 ^[c]
Class 'C'	+14.2	+14.2	+16.8	+4.2 ^[c]
Sterling ^[d]				
Class 'A'	+24.1	+19.3	+19.5	+7.4 ^[e]
Class 'I'	+25.0	+20.2	+20.4	+19.4 ^[f]
Class 'R'	+24.7	+19.9	+20.1	+19.1 ^[f]
Class 'X'	+24.1	+19.3	+19.5	+8.8 ^[g]
US dollar ^[b]				
Class 'A'	+21.2	n/a	n/a	+10.9 ^[h]
Class 'C'	+22.1	n/a	n/a	+11.7 ^[h]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] Price to price with income reinvested.

^[e] 6 April 1971, the end of the initial offer period of the predecessor unit trust.

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

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

^[h] 9 October 2015, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G Japan Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.03	0.18	0.12	0.11
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.03	0.18	0.12	0.11
Dilution adjustments ^[c]	(0.03)	(0.07)	(0.12)	(0.07)
Total direct portfolio transaction costs	0.00	0.11	0.00	0.04
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.17	0.17	0.17	0.17

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 28 November 2001.

for the year to 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,501.74	1,468.57	1,167.60
Return before operating charges and after direct portfolio transaction costs	228.00	57.05	325.80
Operating charges	(28.77)	(23.88)	(24.83)
Return after operating charges	199.23	33.17	300.97
Distributions	(6.34)	(7.36)	(0.93)
Retained distributions	6.34	7.36	0.93
Closing NAV	1,700.97	1,501.74	1,468.57
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.58	2.57	1.79
Dilution adjustments ^[a]	(0.58)	(0.95)	(1.79)
Total direct portfolio transaction costs	0.00	1.62	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	1.67	1.68	1.69
Return after operating charges	+13.27	+2.26	+25.78
Historic yield	0.38	0.49	0.07
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	5,539,879	4,540,556	5,616,811
Closing NAV percentage of total fund NAV (%)	7.46	12.18	13.98
Number of shares	2,483,667	2,628,474	2,806,163
Highest share price (Euro ¢)	1,886.66	1,602.40	1,675.91
Lowest share price (Euro ¢)	1,441.19	1,187.92	1,094.13

M&G Japan Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,666.54	1,617.51	1,276.46
Return before operating charges and after direct portfolio transaction costs	252.96	63.58	356.16
Operating charges	(17.66)	(14.55)	(15.11)
Return after operating charges	235.30	49.03	341.05
Distributions	(20.23)	(21.90)	(12.10)
Retained distributions	20.23	21.90	12.10
Closing NAV	1,901.84	1,666.54	1,617.51

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.64	2.84	1.96
Dilution adjustments ^[a]	(0.64)	(1.04)	(1.96)
Total direct portfolio transaction costs	0.00	1.80	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	0.92	0.92	0.94
Return after operating charges	+14.12	+3.03	+26.72
Historic yield	1.09	1.31	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (¥000)	15,840,973	9,839,641	14,225,489
Closing NAV percentage of total fund NAV (%)	21.34	26.38	35.40
Number of shares	6,351,835	5,132,789	6,452,642
Highest share price (Euro ¢)	2,101.22	1,768.00	1,840.93
Lowest share price (Euro ¢)	1,599.84	1,312.84	1,197.25

Sterling Class 'A' Income share performance

The share class was launched on 9 May 1977.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	48.37	41.08	35.42
Return before operating charges and after direct portfolio transaction costs	12.07	8.23	6.37
Operating charges	(0.96)	(0.70)	(0.70)
Return after operating charges	11.11	7.53	5.67
Distributions	(1.13)	(0.24)	(0.01)
Closing NAV	58.35	48.37	41.08

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.05
Dilution adjustments ^[a]	(0.02)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.05	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	1.67	1.67	1.70
Return after operating charges	+22.97	+18.33	+16.01
Historic yield ^[c]	1.98	0.49	0.04
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (¥000)	33,435,964	13,170,313	8,679,350
Closing NAV percentage of total fund NAV (%)	45.03	35.31	21.60
Number of shares	402,398,895	200,774,272	113,633,391
Highest share price (UK p)	61.23	48.72	45.83
Lowest share price (UK p)	46.49	35.30	33.29

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 April 1971.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	53.05	44.84	38.66
Return before operating charges and after direct portfolio transaction costs	13.23	8.97	6.92
Operating charges	(1.04)	(0.76)	(0.74)
Return after operating charges	12.19	8.21	6.18
Distributions	(0.24)	(0.26)	(0.01)
Retained distributions	0.24	0.26	0.01
Closing NAV	65.24	53.05	44.84

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.05
Dilution adjustments ^[a]	(0.02)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.05	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	1.67	1.68	1.70
Return after operating charges	+22.98	+18.31	+15.99
Historic yield	0.38	0.49	0.02
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (¥000)	14,268,486	7,729,013	9,070,950
Closing NAV percentage of total fund NAV (%)	19.22	20.72	22.57
Number of shares	153,581,430	107,420,684	108,807,688
Highest share price (UK p)	67.16	53.10	50.01
Lowest share price (UK p)	50.99	38.45	36.33

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,905.66	1,618.13	1,395.08
Return before operating charges and after direct portfolio transaction costs	476.51	325.69	250.32
Operating charges	(20.77)	(15.28)	(15.00)
Return after operating charges	455.74	310.41	235.32
Distributions	(44.79)	(22.88)	(12.27)
Closing NAV	2,316.61	1,905.66	1,618.13

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.76	2.99	1.93
Dilution adjustments ^[a]	(0.76)	(1.10)	(1.93)
Total direct portfolio transaction costs	0.00	1.89	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	0.92	0.92	0.94
Return after operating charges	+23.92	+19.18	+16.87
Historic yield ^[c]	1.97	1.21	0.77
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (¥000)	438,115	229,451	269,788
Closing NAV percentage of total fund NAV (%)	0.59	0.62	0.67
Number of shares	132,812	88,780	89,667
Highest share price (UK p)	2,422.10	1,932.96	1,813.84
Lowest share price (UK p)	1,832.21	1,394.83	1,312.17

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Specific share class performance

Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,976.12	1,657.52	1,418.46
Return before operating charges and after direct portfolio transaction costs	494.13	334.32	254.96
Operating charges	(21.76)	(15.72)	(15.90)
Return after operating charges	472.37	318.60	239.06
Distributions	(26.05)	(23.33)	(12.66)
Retained distributions	26.05	23.33	12.66
Closing NAV	2,448.49	1,976.12	1,657.52
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.79	3.07	2.06
Dilution adjustments ^[a]	(0.79)	(1.13)	(2.06)
Total direct portfolio transaction costs	0.00	1.94	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	0.92	0.92	0.94
Return after operating charges	+23.90	+19.22	+16.85
Historic yield	1.09	1.19	0.78
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	4,277,828	1,373,803	1,752,523
Closing NAV percentage of total fund NAV (%)	5.76	3.68	4.36
Number of shares	1,226,954	512,607	568,631
Highest share price (UK p)	2,511.43	1,980.65	1,844.00
Lowest share price (UK p)	1,899.79	1,429.25	1,334.44

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	190.25	161.62	139.37
Return before operating charges and after direct portfolio transaction costs	47.51	32.47	24.95
Operating charges	(2.59)	(1.92)	(1.88)
Return after operating charges	44.92	30.55	23.07
Distributions	(4.47)	(1.92)	(0.82)
Closing NAV	230.70	190.25	161.62
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.07	0.30	0.19
Dilution adjustments ^[a]	(0.07)	(0.11)	(0.19)
Total direct portfolio transaction costs	0.00	0.19	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	1.17	1.17	1.19
Return after operating charges	+23.61	+18.90	+16.55
Historic yield ^[c]	1.98	1.01	0.52
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (¥000)	6,758	5,659	4,818
Closing NAV percentage of total fund NAV (%)	0.01	0.02	0.01
Number of shares	20,573	21,931	16,032
Highest share price (UK p)	241.49	192.61	180.89
Lowest share price (UK p)	182.90	139.18	131.06

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	195.72	164.53	141.15
Return before operating charges and after direct portfolio transaction costs	48.51	32.95	25.29
Operating charges	(2.35)	(1.76)	(1.91)
Return after operating charges	46.16	31.19	23.38
Distributions	(2.02)	(1.95)	(0.83)
Retained distributions	2.02	1.95	0.83
Closing NAV	241.88	195.72	164.53
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.07	0.27	0.20
Dilution adjustments ^[a]	(0.07)	(0.10)	(0.20)
Total direct portfolio transaction costs	0.00	0.17	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	1.18	1.15	1.19
Return after operating charges	+23.58	+18.96	+16.56
Historic yield	0.85	1.00	0.48
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	12,153	32,285	16,229
Closing NAV percentage of total fund NAV (%)	0.02	0.09	0.04
Number of shares	35,283	121,631	53,046
Highest share price (UK p)	248.39	196.16	183.20
Lowest share price (UK p)	188.14	141.71	132.74

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	47.68	40.49	34.92
Return before operating charges and after direct portfolio transaction costs	11.90	8.11	6.25
Operating charges	(0.93)	(0.69)	(0.67)
Return after operating charges	10.97	7.42	5.58
Distributions	(1.12)	(0.23)	(0.01)
Closing NAV	57.53	47.68	40.49
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.07	0.05
Dilution adjustments ^[a]	(0.02)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.04	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	1.67	1.68	1.70
Return after operating charges	+23.01	+18.33	+15.98
Historic yield ^[c]	1.98	0.49	0.02
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (¥000)	196,286	174,085	220,597
Closing NAV percentage of total fund NAV (%)	0.26	0.47	0.55
Number of shares	2,396,266	2,691,978	2,929,791
Highest share price (UK p)	60.37	48.03	45.18
Lowest share price (UK p)	45.83	34.80	32.82

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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 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	52.33	44.23	38.13
Return before operating charges and after direct portfolio transaction costs	13.05	8.87	6.83
Operating charges	(1.02)	(0.77)	(0.73)
Return after operating charges	12.03	8.10	6.10
Distributions	(0.24)	(0.25)	(0.01)
Retained distributions	0.24	0.25	0.01
Closing NAV	64.36	52.33	44.23
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.05
Dilution adjustments ^[a]	(0.02)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.05	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.00
Operating charges	1.67	1.68	1.70
Return after operating charges	+22.99	+18.31	+16.00
Historic yield	0.38	0.49	0.02
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	182,166	188,656	331,237
Closing NAV percentage of total fund NAV (%)	0.25	0.51	0.82
Number of shares	1,987,713	2,657,982	4,027,632
Highest share price (UK p)	66.26	52.46	49.34
Lowest share price (UK p)	50.30	38.01	35.84

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 October 2015.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	999.74	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	225.01	13.58	n/a
Operating charges	(19.65)	(13.84)	n/a
Return after operating charges	205.36	(0.26)	n/a
Distributions	(4.49)	(4.99)	n/a
Retained distributions	4.49	4.99	n/a
Closing NAV	1,205.10	999.74	n/a
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.39	1.51	n/a
Dilution adjustments ^[a]	(0.39)	(0.55)	n/a
Total direct portfolio transaction costs	0.00	0.96	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	n/a
Operating charges	1.67	1.67	n/a
Return after operating charges	+20.54	-0.03	n/a
Historic yield	0.38	0.50	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥000)	43,643	3,096	n/a
Closing NAV percentage of total fund NAV (%)	0.06	0.01	n/a
Number of shares	32,748	3,000	n/a
Highest share price (US ¢)	1,221.64	1,024.92	n/a
Lowest share price (US ¢)	968.00	803.51	n/a

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 October 2015.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,006.41	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	226.55	14.08	n/a
Operating charges	(10.69)	(7.67)	n/a
Return after operating charges	215.86	6.41	n/a
Distributions	(13.00)	(12.61)	n/a
Retained distributions	13.00	12.61	n/a
Closing NAV	1,222.27	1,006.41	n/a
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.39	1.51	n/a
Dilution adjustments ^[a]	(0.39)	(0.56)	n/a
Total direct portfolio transaction costs	0.00	0.95	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	n/a
Operating charges	0.92	0.92	n/a
Return after operating charges	+21.45	+0.64	n/a
Historic yield	1.08	1.25	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥000)	3,462	3,117	n/a
Closing NAV percentage of total fund NAV (%)	0.00	0.01	n/a
Number of shares	2,561	3,000	n/a
Highest share price (US ¢)	1,238.37	1,025.16	n/a
Lowest share price (US ¢)	974.75	805.55	n/a

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		¥'000	¥'000	¥'000	¥'000
Income					
Net capital gains / (losses)	3		10,957,360		(6,868,095)
Revenue	5	1,196,854		971,280	
Expenses	6	(801,082)		(568,560)	
Net revenue / (expense) before taxation		395,772		402,720	
Taxation	7	(122,622)		(97,304)	
Net revenue / (expense) after taxation			273,150		305,416
Total return before distributions			11,230,510		(6,562,679)
Distributions	8		(664,354)		(305,423)
Change in net assets attributable to shareholders from investment activities			10,566,156		(6,868,102)

Statement of change in net assets attributable to shareholders

for the year to 31 August		2017		2016	
		¥'000	¥'000	¥'000	¥'000
Opening net assets attributable to shareholders					
			37,289,675		40,187,792
Amounts received on issue of shares	44,825,581			30,455,576	
Amounts paid on cancellation of shares	(18,794,150)			(24,134,276)	
Value of in specie transfers paid	0			(2,637,492)	
			26,031,431		3,683,808
Dilution adjustments			69,549		79,558
Change in net assets attributable to shareholders from investment activities (see above)			10,566,156		(6,868,102)
Retained distributions on Accumulation shares			288,865		206,538
Unclaimed distributions			37		81
Closing net assets attributable to shareholders			74,245,713		37,289,675

Balance sheet

as at 31 August	Note	2017	2016
		¥'000	¥'000
Assets			
Fixed assets			
Investments		72,713,767	37,138,471
Current assets			
Debtors	9	290,387	1,086,711
Cash and bank balances	10	1,991,339	153,629
Total assets		74,995,493	38,378,811
Liabilities			
Creditors			
Bank overdrafts		(10,110)	0
Distribution payable		(661,909)	(68,085)
Other creditors	11	(77,761)	(1,021,051)
Total liabilities		(749,780)	(1,089,136)
Net assets attributable to shareholders		74,245,713	37,289,675

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's functional and presentational currency is Japanese yen as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are 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 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 31 August	2017	2016
	¥'000	¥'000
Non-derivative securities	10,813,873	(6,919,232)
Derivative contracts	71,739	(8,317)
Currency gains / (losses)	73,585	61,721
Transaction charges	(1,837)	(2,267)
Net capital gains / (losses)	10,957,360	(6,868,095)

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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 pages 130 and 131.

for the year to 31 August	2017 ¥'000	% of transaction	2016 ¥'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	42,998,551		33,125,376	
Commissions	10,228	0.02	40,933	0.12
Total purchases after transaction costs	43,008,779		33,166,309	
b) Sales				
Equities				
Equities before transaction costs	18,320,733		29,335,531	
Commissions	(7,976)	0.04	(32,206)	0.11
Equities after transaction costs	18,312,757		29,303,325	
Other transaction types				
In specie	0		(2,637,492)	
Total sales after transaction costs	18,312,757		26,665,833	
c) Direct portfolio transaction costs				
Commissions paid				
Equities	18,204	0.03	73,139	0.18
Derivatives	340	0.00	0	0.00
Total direct portfolio transaction costs [a]	18,544	0.03	73,139	0.18
d) Indirect portfolio transaction costs				
Portfolio dealing spread [b]		0.17		0.17

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

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

5 Revenue

for the year to 31 August	2017 ¥'000	2016 ¥'000
Bank interest	0	24
Derivative revenue	(117)	0
Dividends from equity investments: non-taxable	1,226,224	973,044
Dividends from equity investments: taxable	(29,721)	(1,999)
Interest distributions	468	211
Total revenue	1,196,854	971,280

6 Expenses

for the year to 31 August	2017 ¥'000	2016 ¥'000
Payable to the ACD or associate		
Annual management charge	705,100	499,429
Administration charge	82,885	60,774
	787,985	560,203
Payable to the Depositary or associate		
Depositary's charge (including VAT)	3,945	3,175
Other expenses		
Audit fee (including VAT)	1,300	1,076
Interest payable	2,620	844
Safe custody charge	5,525	3,894
	9,445	5,814
VAT recoverable		
Current year	0	(219)
Prior year	(293)	(413)
	(293)	(632)
Total expenses	801,082	568,560

7 Taxation

for the year to 31 August	2017 ¥'000	2016 ¥'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	122,622	97,304
Deferred tax (note 7c)	0	0
Total taxation	122,622	97,304
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	395,772	402,720
Corporation tax at 20%	79,155	80,544
Effects of:		
Dividends from equity investments: non-taxable	(245,245)	(194,609)
Current year expenses not utilised	166,090	114,065
Withholding tax	122,622	97,304
Total tax charge (note 7a)	122,622	97,304
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 ¥730,352,000 (2016: ¥564,262,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

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8 Distributions

for the year to 31 August	2017		2016	
	Inc ^[a] ¥000	Acc ^[b] ¥000	Inc ^[a] ¥000	Acc ^[b] ¥000
Dividend distributions				
Final	661,909	288,865	68,085	206,538
Total net distributions		950,774		274,623
Income deducted on cancellation of shares		123,112		198,954
Income received on issue of shares		(409,532)		(168,154)
Distributions		664,354		305,423
Net revenue / (expense) per statement of total return		273,150		305,416
Expenses offset against capital		391,248		0
Undistributed income brought forward		15		22
Undistributed income carried forward		(59)		(15)
Distributions		664,354		305,423

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 August	2017 ¥000	2016 ¥000
Amounts receivable on issues of shares	251,136	495,960
Currency deals outstanding	0	353,933
Distributions receivable	26	13
Dividends receivable	39,225	22,610
Sales awaiting settlement	0	214,195
Total debtors	290,387	1,086,711

10 Cash and bank balances

as at 31 August	2017 ¥000	2016 ¥000
Amounts held at futures clearing houses and collateral manager	84,085	0
Cash held as bank balances	1,907,254	153,629
Total cash and bank balances	1,991,339	153,629

11 Other creditors

as at 31 August	2017 ¥000	2016 ¥000
ACD's annual management charge payable	44,460	19,724
Administration charge payable	5,155	2,341
Amounts payable on cancellation of shares	25,342	35,219
Currency deals outstanding	0	355,841
Expenses payable	2,804	2,796
Purchases awaiting settlement	0	605,130
Total other creditors	77,761	1,021,051

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	2,628,474	3,479,879	(3,624,686)	2,483,667
Class 'C' Accumulation	5,132,789	3,160,816	(1,941,770)	6,351,835
Sterling				
Class 'A' Income	200,774,272	241,439,895	(39,815,272)	402,398,895
Class 'A' Accumulation	107,420,684	77,350,714	(31,189,968)	153,581,430
Class 'I' Income	88,780	87,894	(43,862)	132,812
Class 'I' Accumulation	512,607	1,041,500	(327,153)	1,226,954
Class 'R' Income	21,931	14,840	(16,198)	20,573
Class 'R' Accumulation	121,631	1,317,830	(1,404,178)	35,283
Class 'X' Income	2,691,978	294,713	(590,425)	2,396,266
Class 'X' Accumulation	2,657,982	1,737,493	(2,407,762)	1,987,713
US dollar				
Class 'A' Accumulation	3,000	34,628	(4,880)	32,748
Class 'C' Accumulation	3,000	3,339	(3,778)	2,561

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

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

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

Notes to the financial statements

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 88.02% (2016: 59.90%) of the fund's shares.

16 Events after the balance sheet date

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

17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2017	2017	2016	2016
	¥'000	¥'000	¥'000	¥'000
Level 1	72,703,657	0	37,138,471	0
Level 2	10,110	0	0	0
Level 3	0	0	0	0
	72,713,767	0	37,138,471	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 ¥3,635,183,000 (2016: ¥1,856,924,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

The table below sets out the counterparty exposure and collateral held to mitigate credit risk.

as at 31 August 2017	Futures	Collateral held as cash	Net exposure
	¥'000	¥'000	¥'000
Bank of America Merrill Lynch	2,453	84,085	86,538
Total	2,453	84,085	86,538
as at 31 August 2016	Futures	Collateral held as cash	Net exposure
	¥'000	¥'000	¥'000
Bank of America Merrill Lynch	0	0	0
Total	0	0	0

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

M&G Japan Fund

Financial statements and notes

Notes to the financial statements

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	€ 0.0000	€ 6.3413	€ 6.3413	€ 7.3588

Euro Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	€ 2.3066	€ 17.9252	€ 20.2318	€ 21.9034

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 0.4671	p 0.6664	p 1.1335	p 0.2366

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 0.0000	p 0.2433	p 0.2433	p 0.2571

Sterling Class 'T' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 12.3859	p 32.4069	p 44.7928	p 22.8793

Sterling Class 'T' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 4.9013	p 21.1458	p 26.0471	p 23.3337

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 0.4195	p 4.0480	p 4.4675	p 1.9152

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 0.2354	p 1.7824	p 2.0178	p 1.9465

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 0.5863	p 0.5312	p 1.1175	p 0.2325

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	p 0.0000	p 0.2399	p 0.2399	p 0.2532

US dollar Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	¢ 0.3479	¢ 4.1457	¢ 4.4936	¢ 4.9853

US dollar Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
Final	¢ 7.5692	¢ 5.4354	¢ 13.0046	¢ 12.6093

M&G Japan Fund

Financial statements and notes

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M&G Japan Smaller Companies Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests wholly or predominantly in securities of smaller Japanese companies, the universe for which is the bottom third in terms of total market capitalisation of all publicly listed equity in Japan. When not wholly invested as above, the Fund may also invest in medium sized and larger companies in order to enhance its liquidity. Its sole objective is long term capital growth.

Investment approach

The M&G Japan Smaller Companies Fund invests in listed smaller Japanese companies to achieve sound capital growth over the long term.

The fund manager applies disciplined and rigorous fundamental analysis during the selection process to ensure a high level of conviction around the valuation for each of the companies held in the fund.

The fund holds shares in companies that have attractive valuations relative to the earnings they are likely to generate over the medium to long term. These companies are quite often out of favour with the market for one reason or another. The fund's investment approach therefore tends to be contrarian in nature.

The fund manager sees investing as a price-sensitive process that takes advantage of the mis-pricing of a company's shares by the market. Whilst recognising that markets are generally efficient, the fund manager believes that market mis-pricings can and often do occur because human characteristics (such as fear and greed) may prevent investors from always assessing investments rationally.

As a result, market prices do not always reflect fundamental values since they may over-shoot and under-shoot. For example, shares in companies become mis-priced when investors are willing to pay a high price for the 'comfort' of strong near-term earnings momentum and to be associated with success, whilst they will sell 'unfashionable' securities regardless of inherent attractiveness, such as healthy balance sheets and the likely level of longer term earnings.

Such behavioural biases are evident in Japan's equity markets today and can be systemically exploited. The fund manager aims to take advantage of these biases by adopting a disciplined, long-term investment approach.

Risk profile

The fund invests in the shares of companies listed in Japan and is, therefore, subject to the price volatility of the Japanese stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on companies that are deemed to be undervalued, 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 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 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Japan Smaller Companies Fund's total return (the combination of income and growth of capital) was positive across all its share classes.* The fund's returns were ahead of the comparative index, the Russell Nomura Mid Small Index. Over the 12 months, returns from the index were 23.5%, 13.5% and 20.4% in sterling, euros and US dollars respectively.

Over five years and since launch, the fund has achieved its objective of long-term capital growth.

Investment performance

During the 12 months under review, the fund generated strong returns and outperformed a rising Japanese stockmarket. Japanese shares were buoyed by a combination of positive factors, namely supportive monetary policy from the Bank of Japan (the central bank is holding down long-term interest rates, which should encourage borrowing); better-than-expected economic growth in the world's second-largest economy, China; and in the US, the election of Donald Trump as the president, which raised expectations that more business-friendly policies and less regulation would be introduced, which should boost the economy.

More recently, data showed that the Japanese economy recorded its sixth consecutive quarter of growth in the second quarter of 2017 – the longest unbroken stretch in more than a decade. Meanwhile, the latest quarterly financial results season demonstrated improving profitability at companies and an increasing willingness by them to return the resultant cashflow to shareholders.

Despite the solid rise in the overall stockmarket, we have seen large fluctuations in investor sentiment throughout the review period. Events like the Bank of Japan's introduction of negative interest rates (a headwind for financials), large gyrations in the yen (which can affect the profitability of exporters), the election of Donald Trump and more recently the escalation of tensions with North Korea have led to big swings in share prices.

M&G Japan Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

In our view, these large price fluctuations are an indication that other investors are letting emotions drive their investment decisions. This has provided us with profitable opportunities. Over the review period, we were able to take advantage of 'episodes' (occasions where prices move for non-fundamental reasons) occurring in a wide range of shares from different sectors.

Fund performance was supported by stock selection across a wide range of sectors. Overall, stockpicking was particularly strong in industrials and technology.

The fund's top contributor was industrial company Nittoku, which manufactures winding and taping machines used in the production of coils, transformers and motors. We believe Nittoku has a solid business and the company's shares have performed very strongly for the fund. We believe the 'episode' that was occurring in Nittoku's shares has largely played out, as other investors have come to understand the investment case for the company. Consequently, we have been reducing the fund's position in the stock.

Another industrial stock that added value was Sumitomo Heavy Industries. Sumitomo announced better-than-expected results, including margin improvement in its construction machinery business, due to an increase in demand for hydraulic excavators, and an increase in orders at its precision machinery business. In the precision machinery division, demand was firm for injection-moulding equipment in Europe and electric and electronics-related products in Asia.

However, other industrial stocks, including Chiyoda and Sankyo Tateyama, held back performance. Chiyoda is an engineering company specialising in industrial facilities, particularly oil refineries and LNG (liquid natural gas) refineries. The company recently announced additional costs related to a delay in its Cameron LNG project in the US. In addition, some investors have concerns over the future of LNG, given the increased interest in commercial battery power. Despite the disappointing news in the US, we believe the new management team is beginning to improve the quality of the company's order book and restructure its business. Furthermore, as the company has a strong balance sheet, it has the resources to do this.

Shares in Sankyo Tateyama, a manufacturer of aluminium sashes and construction materials, suffered as the company reported deteriorating profit margins and disappointing trading at its recently acquired German and Thai businesses. We believe that the poor results at these divisions have partly obscured better performance at the rest of the business and that, given time, other investors will begin to appreciate the value of the overall business.

In technology, our holding in Wacom added value. Wacom is a manufacturer of digital input devices, such as graphic tablets, which are used in the creative and design industries. Wacom is recording strong sales growth in its branded products division, including higher demand for its stylus input systems. We are expecting operating profits to recover, partly on a reduction in selling, general and administrative expenses in relation to its investment in global IT

infrastructure. In our view, the stock is undervalued and other investors are not fully pricing in the company's potential as the top producer in the niche market of electronic styluses.

Semiconductor business Sanken Electric also aided performance. When we first invested in Sanken, the company was unloved and dismissed by most investors. This was partly due to the company's ability to miss management's forecasts, for several years in a row. A new chief executive was brought in in 2015 and, since then, working capital management has improved, Sanken's loss-making power module division has returned to profitability and there has been a positive shift towards higher margin products.

Conversely, a holding in Oki Electric detracted. Oki Electric, a manufacturer of ATMs and printers, is a newcomer to the portfolio. The company has faced a number of challenges recently; in China, one of Oki's main distributors for ATMs terminated its agreement, and in Brazil, its ATM business has suffered from disappointing sales and poor profitability. Meanwhile, its printer division is struggling. However, we believe these issues are being addressed. Oki has signed up a new distributor in China and, in the long term, Brazil should provide significant growth opportunities. Furthermore, in its printer division, Oki continues to make progress shifting its product mix away from the more commoditised (high volume and low margin) areas of the market, albeit at a slower rate than management had initially indicated.

Outside industrials and technology, a holding in Sumitomo Real Estate also added value. The company acts as a broker for condominiums and residential houses. Sentiment towards the business has been steadily improving, not least because of its strong forward order book.

Financial stocks lagged the broader market over the review period, with sector selling being indiscriminate. While some investors feel the deflationary environment, combined with lower bond yields, will prove particularly difficult for the profitability of Japanese financials, we believe the negative sentiment has been overdone. The underperformance was reflected in the fund's holding in Tokyo TY Financial, where, in our view, the bank has considerable restructuring opportunities that should drive improved profitability. We do not believe that this flexibility has been reflected in the company's share price.

Investment activities

Investment activity during the review period focused on the recycling of cash out of holdings where we believed share prices better reflected fundamentals and the market fully understood the investment case. We also added to holdings where an 'episode' was still apparent. In addition, we built up significant positions in several new holdings.

Seiko, for example, is a manufacturer of watches and electronic devices. The company faces a number of headwinds, including the threat from smart watches. However, in our view, investors are misinterpreting Seiko's challenges and therefore, we believe the shares are undervalued.

We also initiated a position in NTT Urban Development, as we believe there is an 'episode' currently occurring in the construction and real estate sectors in Japan. On the other hand, residential real estate broker Sumitomo Real Estate was sold.

M&G Japan Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

Mazda Motor also joined the portfolio. Mazda's relative valuation has now returned to its 20 year low due to investor concerns surrounding its exposure to the Japanese yen (the majority of manufacturing is based in Japan, but is sold globally) and the automobile sector's development of self-drive cars. However, the share price does not factor in internal research and development and internal cost efficiencies that the management team have embarked upon. Central to this is Mazda's belief that humans will still wish to drive cars, therefore Mazda's focus should be on harnessing improved technology to improve the safety of self-drive vehicles, not full scale automation.

We also built up smaller positions in Cookpad, a company which operates Japan's largest recipe sharing service and Credit Saison, a financial services company. In order to fund the purchase of Credit Saison, we closed the position in regional bank, Awa.

Other holdings we exited included semiconductor manufacturers Advantest and Rohm, and CAC, an IT service provider.

Retailers Xebio and Shimamura were also sold. We closed the position in Xebio, a retailer specialising in sports equipment and clothing, as it is facing increased competition from other sports retailers, particularly ones with a strong internet offering. On the other hand, retailer Shimamura was sold as we believe some of the other holdings from the sector have greater upside potential.

Other positions that were closed included Chugoku Marine Paints, a leading supplier of marine coatings. Other investors had begun to recognise the strength of Chugoku's underlying business, which resulted in its shares performing well, so we decided to close the position.

Ahresty, a manufacturer of light alloy diecasts mainly for the auto industry, Tokai Carbon, a stockist of specialist graphite materials used in areas such as the nuclear industry and Tsumura, a company with a dominant position in the Chinese medicines market were also sold.

Outlook

We believe the valuation of Japanese shares remains compelling. The Japanese stockmarket at present offers an earnings yield (the ratio of company profits after tax to company size), which remains attractive relative to other developed market equities and the current yield on 10-year Japanese government bonds, which is close to zero.

However, we would argue that it is not just valuations which make investing in Japanese equities convincing. There are some fundamental changes at a corporate level which should drive both profitability and shareholder returns. In our opinion, the changes happening in Japan today are structural, not cyclical.

Changes to the stewardship and governance codes governing investors have resulted in their increased engagement with companies. In turn, companies have become more focused on shareholder value. Companies have significantly improved both their cost structures and profitability. This was particularly evident in the most recent results season – dividends and share buybacks together are now well ahead of the levels seen before the global financial crisis.

In our opinion, the high price-to-earnings (the ratio of a company's share price to its earnings per share) multiples seen, for example, in the consumer staples sector currently, indicate that investors are paying over the odds for safe earnings streams. At the same time, investors are avoiding names perceived to be risky, such as financials, despite these cyclical companies trading on steep discounts and enjoying improving earnings trends. (Cyclical companies are businesses whose earnings tend to be more volatile throughout the economic cycle.)

While the characteristics of these 'stable earners' have not materially changed over time, their valuation has. In contrast, the prospective return from owning economically sensitive names, such as financials, has two important anchors: the stocks are cheap relative to their trend earnings and they have substantially improved both profits and shareholder returns. Moreover, these companies have managed to do this during a time of relatively muted economic growth.

At the individual stock level, any sign that reported earnings have deviated from analysts' expectations, either on the upside or downside, has been reflected in significant price volatility. The resultant irrational price behaviour presents significant opportunities, as valuations across sectors become stretched.

Johan Du Preez

Fund manager

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

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

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

M&G Japan Smaller Companies Fund

Authorised Corporate Director's Report

Investments

Portfolio statement			
as at 31 August	2017	2017	2016
Holding	¥'000	%	%
Equities	35,864,919	98.43	99.76
Chemicals	2,647,433	7.26	11.73
281,800 DIC	1,093,384	3.00	
693,100 JSR	1,483,927	4.07	
17,400 Tocalo	70,122	0.19	
Industrial metals & mining	1,251,985	3.43	3.86
793,400 Sankyo Tateyama	1,251,985	3.43	
General industrials	1,023,878	2.81	3.55
970,500 Sumitomo Riko	1,023,878	2.81	
Electronic & electrical equipment	2,684,958	7.37	6.43
1,444,000 Denki Kogyo	820,192	2.25	
3,670,800 Wacom	1,864,766	5.12	
Industrial engineering	3,740,944	10.27	10.71
2,010,000 Chiyoda	1,147,710	3.15	
312,500 Ebara	1,062,500	2.92	
274,500 Mars Engineering	629,978	1.73	
33,200 Nittoku Engineering	137,448	0.38	
932,000 Sumitomo Heavy Industries	763,308	2.09	
Industrial transportation	1,248,544	3.43	3.06 ^[a]
3,547,000 Mitsui O.S.K. Lines	1,248,544	3.43	
Support services	1,477,997	4.06	3.75 ^[a]
401,800 Hamakyorex	1,147,139	3.15	
59,400 Hosokawa Micron Corporation	330,858	0.91	
Automobiles & parts	2,954,490	8.11	11.63 ^[a]
594,000 KYB	361,746	0.99	
894,400 Mazda Motor	1,447,586	3.97	
219,800 Riken	1,145,158	3.15	
Leisure goods	1,327,644	3.64	3.74
733,100 Nikon	1,327,644	3.64	
Personal goods	915,616	2.51	2.25
1,136,000 Onward Holdings	915,616	2.51	
Pharmaceuticals & biotechnology	0	0.00	1.67
Food & drug retailers	608,214	1.67	1.59 ^[a]
100,200 cocokara fine	608,214	1.67	
General retailers	2,997,742	8.23	5.49 ^[a]
911,200 Cookpad	698,890	1.92	
452,200 Dena	1,063,122	2.92	
18,800 Escrit	14,720	0.04	
700 Komeri	2,230	0.01	
333,000 United Arrows	1,218,780	3.34	
Media	1,025,672	2.81	2.70 ^[a]
836,600 Relia	1,025,672	2.81	
Banks	945,603	2.60	4.06
368,800 Tokyo Ty Financial Group	945,603	2.60	
Real estate investment & services	2,948,671	8.09	7.87
716,700 Iida Group	1,338,796	3.67	
1,181,900 Leoplace21	951,430	2.61	
597,500 Sanyo Housing Nagoya	658,445	1.81	
Real estate investment trusts	1,121,456	3.08	0.00
1,054,000 NTT Urban Development	1,121,456	3.08	
Financial services	3,307,625	9.08	7.20 ^[a]
363,400 Credit Saison	724,256	1.99	
522,400 IBJ Leasing Company	1,464,810	4.02	
3,857,100 Monex Group	1,118,559	3.07	

Portfolio statement (continued)

as at 31 August	2017	2017	2016
Holding	¥'000	%	%
Software & computer services	0	0.00	1.15
Technology hardware & equipment	3,636,447	9.98	7.32
179,900 Daikoku Denki	303,131	0.83	
897,300 OKI Electric Industry	1,353,128	3.71	
1,382,000 Sanken Electric	772,538	2.12	
2,425,000 Seiko Holdings	1,207,650	3.32	
Futures contracts	1,265	0.00	0.00
28 Topix Index Future September 2017	1,265	0.00	
Portfolio of investments	35,866,184	98.43	99.76
'AAA' rated money market funds ^[b]	127,444	0.35	0.00
895,000 Northern Trust Global Fund - Sterling	127,444	0.35	
Total portfolio (notes 2c & 2d on page 6)	35,993,628	98.78	99.76
Net other assets / (liabilities)	443,712	1.22	0.24
Net assets attributable to shareholders	36,437,340	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] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

Top ten portfolio transactions

for the year to 31 August 2017

Largest purchases		¥'000
OKI Electric Industry		1,562,413
Mazda Motor		1,399,707
Chiyoda		1,367,230
Iida Group		1,252,926
United Arrows		1,184,048
Dena		1,133,333
NTT Urban Development		1,117,211
Seiko Holdings		1,115,398
Wacom		989,385
Nikon		980,882
Other purchases		18,043,675
Total purchases		30,146,208
Largest sales		¥'000
Sumitomo Real Estate		1,413,368
Nittoku Engineering		1,411,555
Rohm		1,298,101
Tocalo		887,490
Nissin Kogyo		885,449
KYB Corporation		818,287
Komeri		784,067
Sumitomo Heavy Industries		728,521
Tsumura		664,571
Tokai Carbon		631,107
Other sales		6,927,154
Total sales		16,449,670

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

M&G Japan Smaller Companies Fund

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Fund performance

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

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

We show performance for these two share classes because:

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

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 ¥'000	2016 ¥'000	2015 ¥'000
Fund net asset value (NAV)	36,437,340	15,171,162	22,494,035

Performance since launch

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Japan Smaller Companies Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+20.3	+16.6	+19.2	+7.2 ^[c]
Class 'C'	+21.2	+17.4	+20.1	+8.0 ^[c]
Sterling ^[d]				
Class 'A'	+31.7	+22.7	+22.9	+7.8 ^[e]
Class 'I'	+32.7	+23.6	+23.8	+22.9 ^[f]
Class 'R'	+32.3	+23.3	+23.5	+22.6 ^[f]
Class 'X'	+31.7	+22.7	+22.9	+12.1 ^[g]
US dollar ^[b]				
Class 'A'	+28.6	n/a	n/a	+18.1 ^[h]
Class 'C'	+29.5	n/a	n/a	+19.0 ^[h]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] Price to price with income reinvested.

^[e] 15 May 1984, the end of the initial offer period of the predecessor unit trust.

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

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

^[h] 9 October 2015, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G Japan Smaller Companies Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.06	0.16	0.15	0.12
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.06	0.16	0.15	0.12
Dilution adjustments ^[c]	(0.06)	(0.05)	(0.14)	(0.08)
Total direct portfolio transaction costs	0.00	0.11	0.01	0.04
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.22	0.24	0.17	0.21

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 28 November 2001.

for the year to 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	2,490.82	2,242.98	1,866.26
Return before operating charges and after direct portfolio transaction costs	535.81	287.16	413.81
Operating charges	(49.77)	(39.32)	(37.09)
Return after operating charges	486.04	247.84	376.72
Distributions	(4.09)	(10.56)	(0.37)
Retained distributions	4.09	10.56	0.37
Closing NAV	2,976.86	2,490.82	2,242.98
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.70	3.73	3.30
Dilution adjustments ^[a]	(1.70)	(1.06)	(3.10)
Total direct portfolio transaction costs	0.00	2.67	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	1.68	1.69	1.70
Return after operating charges	+19.51	+11.05	+20.19
Historic yield	0.14	0.42	0.02
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	8,923,194	5,587,955	6,743,152
Closing NAV percentage of total fund NAV (%)	24.49	36.83	29.97
Number of shares	2,285,881	1,950,294	2,205,740
Highest share price (Euro ¢)	3,150.10	2,519.73	2,556.24
Lowest share price (Euro ¢)	2,462.48	1,999.39	1,766.49

M&G Japan Smaller Companies Fund

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Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,778.17	2,483.03	2,050.60
Return before operating charges and after direct portfolio transaction costs	598.69	319.36	454.63
Operating charges	(31.61)	(24.22)	(22.20)
Return after operating charges	567.08	295.14	432.43
Distributions	(27.28)	(32.68)	(18.64)
Retained distributions	27.28	32.68	18.64
Closing NAV	3,345.25	2,778.17	2,483.03
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.96	4.13	3.55
Dilution adjustments ^[a]	(1.96)	(1.17)	(3.34)
Total direct portfolio transaction costs	0.00	2.96	0.21
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	0.93	0.94	0.94
Return after operating charges	+20.41	+11.89	+21.09
Historic yield	0.83	1.15	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	7,577,102	1,189,790	1,323,930
Closing NAV percentage of total fund NAV (%)	20.79	7.84	5.89
Number of shares	1,727,293	372,306	391,201
Highest share price (Euro ¢)	3,526.72	2,794.78	2,821.75
Lowest share price (Euro ¢)	2,747.41	2,220.87	1,942.86

Sterling Class 'A' Income share performance

The share class was launched on 15 May 1984.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	426.32	333.15	300.61
Return before operating charges and after direct portfolio transaction costs	135.93	100.78	38.14
Operating charges	(9.04)	(6.23)	(5.57)
Return after operating charges	126.89	94.55	32.57
Distributions	(9.07)	(1.38)	(0.03)
Closing NAV	544.14	426.32	333.15
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.31	0.57	0.49
Dilution adjustments ^[a]	(0.31)	(0.16)	(0.47)
Total direct portfolio transaction costs	0.00	0.41	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	1.68	1.71	1.70
Return after operating charges	+29.76	+28.38	+10.83
Historic yield ^[c]	1.70	0.32	0.01
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (¥000)	3,530,197	395,814	4,219,006
Closing NAV percentage of total fund NAV (%)	9.69	2.61	18.75
Number of shares	4,556,080	684,585	6,810,663
Highest share price (UK p)	557.63	438.14	373.84
Lowest share price (UK p)	422.09	314.80	285.39

Sterling Class 'A' Accumulation share performance

The share class was launched on 15 May 1984.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	449.18	349.58	315.41
Return before operating charges and after direct portfolio transaction costs	142.78	106.09	40.04
Operating charges	(9.10)	(6.49)	(5.87)
Return after operating charges	133.68	99.60	34.17
Distributions	(0.80)	(1.88)	(0.03)
Retained distributions	0.80	1.88	0.03
Closing NAV	582.86	449.18	349.58
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.31	0.61	0.52
Dilution adjustments ^[a]	(0.31)	(0.17)	(0.49)
Total direct portfolio transaction costs	0.00	0.44	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	1.68	1.69	1.70
Return after operating charges	+29.76	+28.49	+10.83
Historic yield	0.14	0.41	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	1,761,313	1,365,071	2,450,951
Closing NAV percentage of total fund NAV (%)	4.83	9.00	10.90
Number of shares	2,122,149	2,240,835	3,770,656
Highest share price (UK p)	587.52	460.15	392.25
Lowest share price (UK p)	444.71	330.60	299.46

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,085.10	1,630.16	1,470.88
Return before operating charges and after direct portfolio transaction costs	664.83	496.56	187.16
Operating charges	(23.83)	(16.80)	(15.56)
Return after operating charges	641.00	479.76	171.60
Distributions	(44.47)	(24.82)	(12.32)
Closing NAV	2,681.63	2,085.10	1,630.16
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.47	2.87	2.48
Dilution adjustments ^[a]	(1.47)	(0.81)	(2.33)
Total direct portfolio transaction costs	0.00	2.06	0.15
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	0.93	0.94	0.95
Return after operating charges	+30.74	+29.43	+11.67
Historic yield ^[c]	1.69	1.18	0.76
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (¥000)	1,916,121	1,091,743	1,273,727
Closing NAV percentage of total fund NAV (%)	5.26	7.19	5.66
Number of shares	501,797	386,070	420,216
Highest share price (UK p)	2,747.82	2,160.76	1,837.67
Lowest share price (UK p)	2,065.12	1,546.55	1,397.71

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Specific share class performance

Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,167.19	1,673.96	1,499.02
Return before operating charges and after direct portfolio transaction costs	690.98	510.45	190.98
Operating charges	(24.86)	(17.22)	(16.04)
Return after operating charges	666.12	493.23	174.94
Distributions	(23.11)	(25.51)	(12.58)
Retained distributions	23.11	25.51	12.58
Closing NAV	2,833.31	2,167.19	1,673.96
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.54	2.94	2.56
Dilution adjustments ^[a]	(1.54)	(0.83)	(2.41)
Total direct portfolio transaction costs	0.00	2.11	0.15
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	0.93	0.94	0.95
Return after operating charges	+30.74	+29.46	+11.67
Historic yield	0.83	1.16	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	10,906,843	4,347,014	4,371,738
Closing NAV percentage of total fund NAV (%)	29.94	28.65	19.44
Number of shares	2,703,387	1,478,995	1,404,543
Highest share price (UK p)	2,855.86	2,219.41	1,872.88
Lowest share price (UK p)	2,146.32	1,588.52	1,424.56

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	208.44	162.94	147.01
Return before operating charges and after direct portfolio transaction costs	66.41	49.57	18.70
Operating charges	(3.01)	(2.12)	(1.95)
Return after operating charges	63.40	47.45	16.75
Distributions	(4.44)	(1.95)	(0.82)
Closing NAV	267.40	208.44	162.94
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.15	0.29	0.25
Dilution adjustments ^[a]	(0.15)	(0.08)	(0.23)
Total direct portfolio transaction costs	0.00	0.21	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	1.18	1.19	1.20
Return after operating charges	+30.42	+29.12	+11.39
Historic yield ^[c]	1.70	0.92	0.51
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (¥'000)	22,164	11,913	15,698
Closing NAV percentage of total fund NAV (%)	0.06	0.08	0.07
Number of shares	58,209	42,139	51,813
Highest share price (UK p)	274.01	215.48	183.40
Lowest share price (UK p)	206.42	154.42	139.66

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	214.47	166.09	149.10
Return before operating charges and after direct portfolio transaction costs	68.11	50.51	18.96
Operating charges	(2.89)	(2.13)	(1.97)
Return after operating charges	65.22	48.38	16.99
Distributions	(1.65)	(1.99)	(0.83)
Retained distributions	1.65	1.99	0.83
Closing NAV	279.69	214.47	166.09
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.14	0.29	0.25
Dilution adjustments ^[a]	(0.14)	(0.08)	(0.23)
Total direct portfolio transaction costs	0.00	0.21	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	1.19	1.18	1.20
Return after operating charges	+30.41	+29.13	+11.40
Historic yield	0.60	0.92	0.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	58,748	60,086	97,847
Closing NAV percentage of total fund NAV (%)	0.16	0.40	0.43
Number of shares	147,508	206,580	316,836
Highest share price (UK p)	281.92	219.65	185.99
Lowest share price (UK p)	212.38	157.42	141.64

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	423.69	331.13	298.79
Return before operating charges and after direct portfolio transaction costs	134.68	100.48	37.94
Operating charges	(8.57)	(6.12)	(5.57)
Return after operating charges	126.11	94.36	32.37
Distributions	(9.01)	(1.80)	(0.03)
Closing NAV	540.79	423.69	331.13
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.29	0.58	0.50
Dilution adjustments ^[a]	(0.29)	(0.16)	(0.47)
Total direct portfolio transaction costs	0.00	0.42	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	1.68	1.69	1.71
Return after operating charges	+29.76	+28.50	+10.83
Historic yield ^[c]	1.70	0.42	0.01
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (¥'000)	324,739	257,507	338,614
Closing NAV percentage of total fund NAV (%)	0.89	1.70	1.51
Number of shares	421,706	448,137	549,959
Highest share price (UK p)	554.19	435.89	371.58
Lowest share price (UK p)	419.49	313.16	283.68

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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 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	445.77	346.92	313.02
Return before operating charges and after direct portfolio transaction costs	141.69	105.30	39.64
Operating charges	(9.02)	(6.45)	(5.74)
Return after operating charges	132.67	98.85	33.90
Distributions	(0.80)	(1.88)	(0.04)
Retained distributions	0.80	1.88	0.04
Closing NAV	578.44	445.77	346.92
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.31	0.61	0.51
Dilution adjustments ^[a]	(0.31)	(0.17)	(0.48)
Total direct portfolio transaction costs	0.00	0.44	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	0.01
Operating charges	1.68	1.69	1.71
Return after operating charges	+29.76	+28.49	+10.83
Historic yield	0.14	0.42	0.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	1,021,227	856,715	1,659,372
Closing NAV percentage of total fund NAV (%)	2.80	5.65	7.38
Number of shares	1,239,840	1,417,076	2,572,387
Highest share price (UK p)	583.07	456.66	389.26
Lowest share price (UK p)	441.34	328.10	297.18

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 October 2015.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,065.05	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	311.35	79.88	n/a
Operating charges	(21.79)	(14.83)	n/a
Return after operating charges	289.56	65.05	n/a
Distributions	(1.86)	(4.66)	n/a
Retained distributions	1.86	4.66	n/a
Closing NAV	1,354.61	1,065.05	n/a
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.75	1.42	n/a
Dilution adjustments ^[a]	(0.75)	(0.40)	n/a
Total direct portfolio transaction costs	0.00	1.02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	n/a
Operating charges	1.68	1.69	n/a
Return after operating charges	+27.19	+6.51	n/a
Historic yield	0.14	0.43	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥000)	96,911	4,233	n/a
Closing NAV percentage of total fund NAV (%)	0.27	0.03	n/a
Number of shares	64,691	3,850	n/a
Highest share price (US ¢)	1,373.97	1,074.20	n/a
Lowest share price (US ¢)	1,062.33	867.51	n/a

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 October 2015.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,072.15	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	314.21	80.43	n/a
Operating charges	(12.47)	(8.28)	n/a
Return after operating charges	301.74	72.15	n/a
Distributions	(11.20)	(12.68)	n/a
Retained distributions	11.20	12.68	n/a
Closing NAV	1,373.89	1,072.15	n/a
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.77	1.42	n/a
Dilution adjustments ^[a]	(0.77)	(0.40)	n/a
Total direct portfolio transaction costs	0.00	1.02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.11	n/a
Operating charges	0.93	0.94	n/a
Return after operating charges	+28.14	+7.22	n/a
Historic yield	0.83	1.16	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥000)	298,781	3,321	n/a
Closing NAV percentage of total fund NAV (%)	0.82	0.02	n/a
Number of shares	196,646	3,000	n/a
Highest share price (US ¢)	1,392.86	1,081.09	n/a
Lowest share price (US ¢)	1,069.75	869.71	n/a

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

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

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

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Statement of total return

for the year to 31 August	Note	2017		2016	
		¥'000	¥'000	¥'000	¥'000
Income					
Net capital gains / (losses)	3		7,056,009		(1,601,347)
Revenue	5	555,008		399,534	
Expenses	6	(383,617)		(246,140)	
Net revenue / (expense) before taxation					
		171,391		153,394	
Taxation	7	(56,037)		(40,106)	
Net revenue / (expense) after taxation					
			115,354		113,288
Total return before distributions					
			7,171,363		(1,488,059)
Distributions	8		(179,698)		(113,290)
Change in net assets attributable to shareholders from investment activities					
			6,991,665		(1,601,349)

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	¥'000	¥'000	¥'000	¥'000
Opening net assets attributable to shareholders				
		15,171,162		22,494,035
Amounts received on issue of shares	30,561,404		7,918,342	
Amounts paid on cancellation of shares	(16,522,971)		(10,159,667)	
Value of in specie transfers paid	0		(3,615,588)	
		14,038,433		(5,856,913)
Dilution adjustments		66,314		36,620
Change in net assets attributable to shareholders from investment activities (see above)				
		6,991,665		(1,601,349)
Retained distributions on Accumulation shares		169,766		98,769
Closing net assets attributable to shareholders				
		36,437,340		15,171,162

Balance sheet

as at 31 August	Note	2017 ¥'000	2016 ¥'000
Assets			
Fixed assets			
Investments		35,993,628	15,134,563
Current assets			
Debtors	9	492,739	228,641
Cash and bank balances	10	422,426	34,290
Total assets			
		36,908,793	15,397,494
Creditors			
Distribution payable		(96,371)	(15,479)
Other creditors	11	(375,082)	(210,853)
Total liabilities			
		(471,453)	(226,332)
Net assets attributable to shareholders			
		36,437,340	15,171,162

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's functional and presentational currency is Japanese yen as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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 31 August	2017 ¥'000	2016 ¥'000
Non-derivative securities	7,036,717	(1,620,423)
Derivative contracts	44,243	0
Currency gains / (losses)	(21,963)	22,570
Transaction charges	(2,988)	(3,494)
Net capital gains / (losses)	7,056,009	(1,601,347)

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 146 and 147.

for the year to 31 August	2017 ¥'000	% of transaction	2016 ¥'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	30,138,107		10,330,121	
Commissions	8,101	0.03	13,731	0.13
Total purchases after transaction costs				
	30,146,208		10,343,852	
b) Sales				
Equities				
Equities before transaction costs	15,942,891		16,086,196	
Commissions	(8,021)	0.05	(14,756)	0.09
Equities after transaction costs				
	15,934,870		16,071,440	
Other transaction types				
Corporate actions	514,800		0	
In specie	0		(3,615,588)	
Total sales after transaction costs				
	16,449,670		12,455,852	
c) Direct portfolio transaction costs				
Commissions paid				
Equities	16,122	0.06	28,487	0.16
Derivatives	461	0.00	0	0.00
Total direct portfolio transaction costs^[a]				
	16,583	0.06	28,487	0.16
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[b]		0.22		0.24

^[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.

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5 Revenue

for the year to 31 August	2017 ¥'000	2016 ¥'000
Bank interest	1	0
Derivative revenue	(94)	0
Dividends from equity investments: non-taxable	560,368	401,061
Dividends from equity investments: taxable	(5,604)	(1,558)
Interest distributions	337	31
Total revenue	555,008	399,534

6 Expenses

for the year to 31 August	2017 ¥'000	2016 ¥'000
Payable to the ACD or associate		
Annual management charge	332,100	215,211
Administration charge	43,164	26,654
	375,264	241,865
Payable to the Depository or associate		
Depository's charge (including VAT)	2,336	1,599
Other expenses		
Audit fee (including VAT)	1,301	1,076
Interest payable	2,100	439
Safe custody charge	2,861	1,675
	6,262	3,190
VAT recoverable		
Current year	0	(162)
Prior year	(245)	(352)
	(245)	(514)
Total expenses	383,617	246,140

7 Taxation

for the year to 31 August	2017 ¥'000	2016 ¥'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	56,037	40,106
Deferred tax (note 7c)	0	0
Total taxation	56,037	40,106
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	171,391	153,394
Corporation tax at 20%	34,278	30,679
Effects of:		
Dividends from equity investments: non-taxable	(112,074)	(80,212)
Current year expenses not utilised	77,796	49,533
Withholding tax	56,037	40,106
Total tax charge (note 7a)	56,037	40,106
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 ¥424,338,000 (2016: ¥346,542,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 31 August	2017		2016	
	Inc ^[a] ¥'000	Acc ^[b] ¥'000	Inc ^[a] ¥'000	Acc ^[b] ¥'000
Dividend distributions				
Final	96,371	169,766	15,479	98,769
Total net distributions		266,137		114,248
Income deducted on cancellation of shares		96,426		39,908
Income received on issue of shares		(182,865)		(40,866)
Distributions		179,698		113,290
Net revenue / (expense) per statement of total return		115,354		113,288
Expenses offset against capital		64,344		0
Undistributed income brought forward		1		3
Undistributed income carried forward		(1)		(1)
Distributions		179,698		113,290

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 August	2017 ¥'000	2016 ¥'000
Amounts receivable on issues of shares	21,730	4,933
Currency deals outstanding	127,304	38,213
Distributions receivable	6	2
Dividends receivable	25,354	14,450
Sales awaiting settlement	318,345	171,043
Total debtors	492,739	228,641

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10 Cash and bank balances

as at 31 August	2017 ¥'000	2016 ¥'000
Amounts held at futures clearing houses and collateral manager	20,365	0
Cash held as bank balances	402,061	34,290
Total cash and bank balances	422,426	34,290

11 Other creditors

as at 31 August	2017 ¥'000	2016 ¥'000
ACD's annual management charge payable	18,070	7,624
Administration charge payable	2,522	977
Amounts payable on cancellation of shares	16,461	49,719
Currency deals outstanding	127,427	38,062
Expenses payable	2,277	2,532
Purchases awaiting settlement	208,325	111,939
Total other creditors	375,082	210,853

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	1,950,294	3,004,562	(2,668,975)	2,285,881
Class 'C' Accumulation	372,306	1,498,382	(143,395)	1,727,293
Sterling				
Class 'A' Income	684,585	4,038,343	(166,848)	4,556,080
Class 'A' Accumulation	2,240,835	1,029,493	(1,148,179)	2,122,149
Class 'I' Income	386,070	739,977	(624,250)	501,797
Class 'I' Accumulation	1,478,995	1,866,429	(642,037)	2,703,387
Class 'R' Income	42,139	32,220	(16,150)	58,209
Class 'R' Accumulation	206,580	1,592,105	(1,651,177)	147,508
Class 'X' Income	448,137	35,854	(62,285)	421,706
Class 'X' Accumulation	1,417,076	310,998	(488,234)	1,239,840
US dollar				
Class 'A' Accumulation	3,850	69,626	(8,785)	64,691
Class 'C' Accumulation	3,000	194,346	(700)	196,646

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

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

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 23.09% (2016: 0.00%) 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 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets		Liabilities	
	2017 ¥'000	2016 ¥'000	2017 ¥'000	2016 ¥'000
Level 1	35,866,184	0	15,134,156	0
Level 2	127,444	0	407	0
Level 3	0	0	0	0
	35,993,628	0	15,134,563	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 ¥1,793,309,000 (2016: ¥756,708,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

The table below sets out the counterparty exposure and collateral held to mitigate credit risk.

as at 31 August 2017	Futures ¥'000	Collateral held as cash ¥'000	Net exposure ¥'000
Bank of America Merrill Lynch	1,265	20,365	21,630
Total	1,265	20,365	21,630

as at 31 August 2016	Futures ¥'000	Collateral held as cash ¥'000	Net exposure ¥'000
Bank of America Merrill Lynch	0	0	0
Total	0	0	0

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

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period	Start	End	Xd	Payment
	Final	01.09.16	31.08.17	01.09.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	€ 0.0000	€ 4.0877	€ 4.0877	€ 10.5592

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	€ 0.0000	€ 27.2815	€ 27.2815	€ 32.6810

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23 Dividend distribution tables (continued)

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	5.4932	3.5724	9.0656	1.3765

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	0.0000	0.8022	0.8022	1.8763

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	17.8796	26.5937	44.4733	24.8239

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	5.5788	17.5341	23.1129	25.5070

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	1.7085	2.7330	4.4415	1.9464

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	0.1569	1.4936	1.6505	1.9907

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	3.5873	5.4225	9.0098	1.7969

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Final	0.0000	0.7961	0.7961	1.8752

US dollar Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	¢	¢	¢	¢
Final	0.0000	1.8648	1.8648	4.6553

US dollar Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	¢	¢	¢	¢
Final	5.0597	6.1449	11.2046	12.6796

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M&G North American Dividend Fund

Authorised Corporate Director's Report

Investment objective

The Fund aims to maximise total return (the combination of capital growth and income) whilst aiming to grow distributions over the long term.

Investment policy

The Fund will invest mainly in North American equities and may invest across all sectors and market capitalisations. The Fund may also invest in transferable securities issued by companies which are listed, registered or trading within North America and in collective investment schemes. Cash and near cash may be held for ancillary purposes and derivatives, including warrants, may be used for efficient portfolio management and hedging purposes.

Investment approach

The M&G North American 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 will usually hold around 40 to 50 stocks, with a long-term investment view and a typical holding period of three to five years.

Risk profile

The fund invests in the shares of North American companies and is, therefore, subject to the price volatility of the North American stockmarket and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

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

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



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has changed during this period. From 1 September 2016 to 30 December 2016 the risk number was 6.

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Distribution summary

Over the 12-month review period, the fund distributed income of 34.3123 cents per US dollar Class 'A' (Income) share. This represents an increase of 5.9% on the previous year. We are pleased that the distribution has increased, in line with the fund's objective, because this time last year we were concerned about our ability to deliver on our stated aim of growing the income stream. Our fears hinged on a potential change in the fund's tax status which would have provided a severe headwind to our task. In the event, the fund's tax status remained unchanged and we continued to benefit from a favourable tax rate for US dividends. (Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.)

We focus on companies with the potential to grow dividends over timeframes of three to five years and we are encouraged by the continued progress of our underlying holdings. The majority of our holdings reported dividend increases of 5% to 15% during the year, and it was pleasing to see many of the fund's top holdings represented in this core group. Methanex (chemicals), Microsoft (technology) and Anthem (healthcare) all delivered solid dividend growth.

Reynolds American, the fund's largest holding for most of the year, also made a strong contribution. The company was acquired by British American Tobacco (BAT) during the review period, but it did not bow out without offering a parting gift. Reynolds American rewarded shareholders with an 11% dividend increase in February – the third increase in a year and a gesture consistent with its past generosity. The dividend is more than 50% higher since we first bought the stock in April 2015.

It was also pleasing to see a strong showing of companies with growth in excess of 15%. UnitedHealth and MasterCard, both top 10 holdings, raised their dividends by 20% and 16% respectively, but Broadcom delivered the biggest increase after the technology company doubled its payment. Consumer staples and retail are not often associated with fast rates of dividend growth, but Constellation Brands (30%), Home Depot (29%) and Mondelēz (16%) demonstrated what can be achieved with a sound strategy and strong capital discipline.

M&G North American Dividend Fund

Authorised Corporate Director's Report

Investment review

Distribution summary (continued)

Only a handful of the fund's holdings increased their dividends by less than 5%. Cardinal Health was one of the laggards and the stock has since been sold. There were no dividend cuts during the period under review.

The fund's distributions are shown in the 'Specific share class performance' tables in this report. The distribution is subject to a number of influences, including changes in the market environment and the fund's tax status, and as a result there is no guarantee that the fund will increase the distribution in every financial year.

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the fund delivered a positive total return (the combination of income and growth of capital) across all its share classes.* The fund's returns in all share classes were ahead of the S&P 500 Index, a comparative index, which returned 16.5% in US dollars, 19.4% in sterling and 9.8% in euros. The fund therefore met its objective of maximising total return during the review period. The fund has achieved this objective since it was introduced in April 2015 and over a longer timeframe of five years.

The fund also delivered on its objective of growing the distribution which has been in place since April 2015. This was the first year in which we have been able to make a like-for-like comparison by pitting two 12-month distributions calculated on the same basis with fees deducted from capital rather than income. Growing distributions has not been part of the objective for long enough to assess this aspect of the fund's performance over five years.

Investment performance

The US stockmarket continued to rally during the review period, with the major indices reaching record highs. Technology led the market higher as investors continued to be drawn to the sector's premium growth. Financials and industrials also outperformed in a narrow field of winners. Donald Trump's victory in the presidential election sparked optimism about the prospects for the US economy, which in turn prompted a rotation towards areas of the market with greater economic sensitivity. By contrast, defensive stocks underperformed as the perception of safety was no longer so highly prized. (Defensive stocks are companies that tend to have stable earnings and are less affected by peaks and troughs in the economy.) Telecommunication services delivered a negative return in a rising market, while consumer staples, utilities and healthcare also lagged. Energy experienced a turbulent time with the sector reversing its gains from the first half of the review period as the oil price drifted lower in 2017.

Against this background, the fund outperformed the S&P 500 Index. Positive stock selection was the key driver of excess return with the fund adding value across a variety of sectors.

Methanex, the methanol producer, was the standout contributor to performance during the year, defying the negative sentiment towards oil and its associated industries. The shares returned more than 80% as the company benefited from a favourable environment for methanol prices. (All references to returns and percentage changes are in US dollars, unless stated otherwise.) Methanex is making substantial progress in its operating performance and generating significant cashflow, but with limited uses for their cash, we believe

there is an exceptional opportunity to create value by buying back stock. Trading at a significant discount to the replacement cost of assets, we believe the shares are materially undervalued and we have been engaging with the company to be more proactive with their buyback programme. Methanex announced plans to repurchase 5% of the company's outstanding stock in March, which was subsequently upgraded to 10% in July. The valuation remains far from appropriate levels, in our view.

The healthcare sector was a source of added value although there was a stark contrast between our winners and losers. UnitedHealth led the gains with a return of almost 50% as the managed care organisation benefited from continued growth in its business. Its peer, Anthem, was another top 10 contributor with the shares up more than 30% since their purchase in January. Zoetis and Allergan, which were also new during the review period, added value in pharmaceuticals. On the other hand, Medtronic was a laggard in the sector after the medical equipment supplier lowered its guidance. Cardinal Health continued to suffer from a tough environment for generic drug pricing and the stock has since been sold with the proceeds recycled into ideas where we have greater conviction.

Broadcom was another major contributor in a strong technology sector. The semiconductor company returned 45% after a series of better-than-expected results. We have been taking profits on the strength of the shares. MasterCard and Microsoft also added value with the shares of both companies rising more than 30%. Not all our holdings in the sector did so well with Sabre being the biggest detractor from fund performance, as the travel software company continued to disappoint. The stock was sold in July.

Other underperformers included L Brands and Ralph Lauren which were not immune to the competitive pressures in the US retail industry. L Brands remains a small exposure in the fund, while the Ralph Lauren position has been cut.

Two of our holdings made a strong contribution as a result of takeover bids. Reynolds American accepted an offer from BAT at the second attempt and the share price rallied more than 30% during the review period. Time Warner, the media and entertainment group, is anticipated to be acquired by telecoms conglomerate AT&T and the shares returned more than 25% before we exited the holding in March. Mead Johnson Nutrition was another beneficiary of takeover activity after the company was bought by Reckitt Benckiser.

Investment activities

There were 18 new purchases and 14 complete sales during the review period, as a result of which the number of holdings increased from 38 to 42. It was a relatively busy year in terms of activity as we took advantage of volatility and lower prices in certain areas of the market to initiate new positions.

Anthem, the managed care organisation, was the biggest purchase during the year. The investment case is based on the potential for earnings growth which we believe is not reflected in the valuation. This purchase, combined with those of Allergan and Zoetis, resulted in an increase in the fund's healthcare weighting. Cardinal Health was sold after a reassessment of the investment thesis.

There were two new purchases in the real estate sector where we had no exposure previously. We started new positions in Crown Castle, the leading US provider of wireless infrastructure, and Equinix, which specialises in data centres. Both companies are well placed to benefit from structural trends which, in our view, will support strong dividend growth for the foreseeable future.

M&G North American Dividend Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

The fund's energy exposure increased, helped by the purchase of Gibson Energy, a Canadian company with an attractive pipeline business and a cheap valuation. We also added to our existing holding in Keyera with the sale of Inter Pipeline providing a source of cash. Elsewhere in the sector, we bought Helmerich & Payne and Halliburton in the services industry, which are potential beneficiaries of a recovery in investment. The fund continues to have no exposure to the oil majors which are struggling to grow. We reduced our holding in LyondellBasell, the chemicals company, to manage the fund's broader energy-related exposure and accommodate higher conviction ideas, most notably Methanex.

Our weighting in financials was marginally higher with the new additions of American Express, Intercontinental Exchange and First Republic Bank offsetting the sale of Chubb, Invesco and Travelers. We also took profits in M&T Bank, which rallied 25% during the review period.

The fund's biggest sales were driven by takeover activity. We exited Reynolds American after it was acquired by BAT in a deal combining cash and shares, while Time Warner was sold soon after the AT&T transaction was announced. Reynolds American was the fund's biggest holding at the time of the takeover approach and the dominant part of the consumer staples exposure. The weighting in the sector has declined following Reynolds American's departure, but we reallocated some of the proceeds into a new holding in Constellation Brands and topped up our position in Mondelēz. Both companies are delivering strong growth in a defensive sector where growth tends to be more pedestrian. We also took advantage of the post-Trump sell-off in defensive stocks to buy more shares in Altria on weakness, although we trimmed our remaining tobacco holding once the shares recovered from their lows.

Technology saw the biggest reduction in sector exposure after Sabre and Apple were sold in their entirety. ADP was sold after its brief sojourn in the fund which saw the shares rise 20% in less than three months. We also took profits in Broadcom after a strong run to manage the position size. Analog Devices was the only new purchase in the sector, although the manufacturer of analogue semiconductors is more exposed to industrial end markets.

Other new purchases included Starbucks, which is growing quickly with potential to expand internationally. Although this is not the cheapest stock in the fund, there is potential for upside given the long runway of expansion opportunities, especially in China.

Outlook

The surprise result of Donald Trump's victory has already made its mark on financial markets, but we believe volatility is likely to persist in certain areas of the US stockmarket as the new president pursues the most wide-ranging government agenda in decades. We are looking to take advantage of these opportunities, when they arise, to invest in long-term winners. Pharmaceuticals, for example, is an area we have been monitoring closely in the healthcare sector given the cross-party support for lower drug prices. We also believe that fiscal policies may surprise on the upside with tax cuts potentially enhancing earnings growth in a meaningful way.

In the meantime, dividend growth remains robust across the portfolio which reflects well on the financial strength and growth potential of the underlying holdings. Although the outperformance of value as a style has taken a step back this year, we continue to believe that a valuation discipline is crucial to generate excellent returns over the long term. At one end of the spectrum, investors are chasing certain areas of the market for their dependable growth, with the result that multiples are high in those particular segments and ultimately difficult to justify. This extreme is now most apparent in technology, but we observe with interest that the past excesses in defensive stocks, most notably in consumer staples, have started to unwind. Stocks such as General Mills, Kraft Heinz, Kellogg Company and Campbell Soup have all underperformed this year in response to disappointing results. It seems that fundamentals are no longer being ignored in what was until recently a fashionable sector. At the other end of the spectrum, we continue to see a wide disparity between the fundamentals of many of our holdings and their valuations in the market, and we are hopeful that these gaps will close and drive performance in the future.

We believe the valuation of the fund's underlying holdings, their cash generative nature and their ability to grow dividends over time stand us in good stead to generate competitive returns over the long term. We are also encouraged by the favourable valuation of the overall fund which offers a higher yield than the S&P 500 Index and faster dividend growth than the market. That said, these metrics are calculated gross of tax and the dividends paid by companies are not handed down to the fund's investors in their entirety. With this in mind, we face a challenge to meet the fund's objective of growing the distribution in the financial year ahead. This may be reminiscent of last year's guidance, but we have reason to be more nervous on this occasion. Our caution is not based on the dividend growth of our underlying holdings, which remains solid, but rather a potential change in the fund's tax status which seems more likely this year compared to the past 12 months. If our fears come to fruition, dividends received from US-domiciled companies will be taxed at 30% rather than the 15% we have been paying. We will endeavour to preserve the lower tax rate for the benefit of our investors, but there is no guarantee that this will be achieved. While a higher tax rate would be a clear setback in the short term, we are confident that the consistent application of our approach will allow us to increase the distribution over a longer timeframe of five years. If we can deliver on the objective over this longer time period, we believe that the growth in the income stream will be matched by capital growth, and that the combination of the two will lead to compelling total returns.

John Weavers Fund manager

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

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

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

M&G North American Dividend Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at 31 August Holding	2017 \$'000	2017 %	2016 %
Oil & gas producers		0.00	0.00 ^[a]
Oil equipment, services & distribution	93,919	12.55	10.14 ^[a]
679,245 Gibson Energy	9,287	1.24	
230,127 Halliburton	8,899	1.19	
198,710 Helmerich & Payne	8,473	1.13	
636,324 Keyera	18,215	2.43	
829,566 Pembina Pipeline	26,076	3.49	
1,007,538 PrairieSky Royalty	22,969	3.07	
Chemicals	58,743	7.85	7.16
31,935 LyondellBasell	2,884	0.38	
1,125,056 Methanex	55,859	7.47	
Electronic & electrical equipment	10,150	1.36	1.31
173,173 Emerson Electric	10,150	1.36	
Industrial engineering	3,584	0.48	1.24
22,043 Rockwell Automation	3,584	0.48	
Industrial transportation	12,266	1.64	0.96
116,894 Union Pacific	12,266	1.64	
Beverages	19,105	2.55	0.00
95,786 Constellation Brands	19,105	2.55	
Food producers	22,646	3.03	1.65
544,113 Mondelez International	22,646	3.03	
Personal goods	8,878	1.19	1.09
168,981 Nike	8,878	1.19	
Tobacco	11,906	1.59	7.54
185,975 Altria Group	11,906	1.59	
Healthcare equipment & services	103,990	13.90	12.52
124,860 Anthem	23,909	3.20	
41,896 Becton Dickinson	8,291	1.11	
308,694 Medtronic	24,646	3.29	
240,776 UnitedHealth Group	47,144	6.30	
Pharmaceuticals & biotechnology	40,084	5.36	2.79
72,328 Allergan	16,191	2.16	
113,529 Johnson & Johnson	14,876	1.99	
145,642 Zoetis	9,017	1.21	
Food & drug retailers	0	0.00	2.47
General retailers	20,583	2.75	3.99
105,222 Home Depot	15,782	2.11	
133,204 L Brands	4,801	0.64	
Media	0	0.00	2.83
Travel & leisure	47,634	6.37	5.40
431,993 Las Vegas Sands	26,157	3.50	
191,886 Six Flags Entertainment	10,191	1.36	
207,037 Starbucks	11,286	1.51	
Banks	60,441	8.07	7.95
97,173 First Republic Bank San Francisco	9,429	1.26	
123,237 JPMorgan Chase	11,250	1.50	
111,532 M&T Bank	16,644	2.22	
450,285 Wells Fargo	23,118	3.09	
Non-life insurance	7,158	0.96	2.51
123,793 Arthur J. Gallagher & Co.	7,158	0.96	
Real estate investment trusts	31,267	4.18	0.00
186,536 Crown Castle International	20,004	2.67	
24,195 Equinix	11,263	1.51	
Financial services	42,250	5.65	3.72
195,390 American Express	16,739	2.24	

Portfolio statement (continued)

as at 31 August Holding	2017 \$'000	2017 %	2016 %
Financial services (continued)			
21,496 Blackrock	8,945	1.20	
255,573 Intercontinental Exchange	16,566	2.21	
Software & computer services			
303,467 FIS	28,025	3.75	
205,886 MasterCard	27,568	3.68	
474,367 Microsoft	35,103	4.69	
Technology hardware & equipment			
135,027 Analog Devices	11,303	1.51	
105,222 Broadcom	25,886	3.46	
Portfolio of investments	722,489	96.57	98.29
'AAA' rated money market funds ^[b]			
27,867,000 Northern Trust Global Fund - US dollar	27,867	3.72	1.69
Forward currency contracts for share class hedging			
€23,859,226 Bought for CAD4,026,700 (expires 20.09.17)	16	0.00	
€2,697,524 Bought for \$27,987,504 (expires 20.09.17)	326	0.04	
€(133,331) Sold for \$156,856 (expires 20.09.17)	(1)	0.00	
Total portfolio (notes 2c & 2d on page 6)	750,697	100.33	99.93
Net other assets / (liabilities)	(2,506)	(0.33)	0.07
Net assets attributable to shareholders	748,191	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] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

Top ten portfolio transactions

for the year to 31 August 2017

Largest purchases	\$'000
Anthem	19,703
Mondelez International	18,477
Crown Castle International	17,783
Allergan	15,975
Constellation Brands	15,801
American Express	15,536
Intercontinental Exchange	15,152
Helmerich & Payne	13,482
Starbucks	11,837
Altria Group	11,515
Other purchases	193,480
Total purchases	348,741
Largest sales	\$'000
Reynolds American	25,482
Sabre	21,386
Time Warner	21,350
Broadcom	19,771
British American Tobacco	16,857
LyondellBasell	15,744
Inter Pipeline	15,015
Cardinal Health	15,000
Automatic Data Processing	11,687
M&T Bank	10,844
Other sales	160,394
Total sales	333,530

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

M&G North American 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 chart and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

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

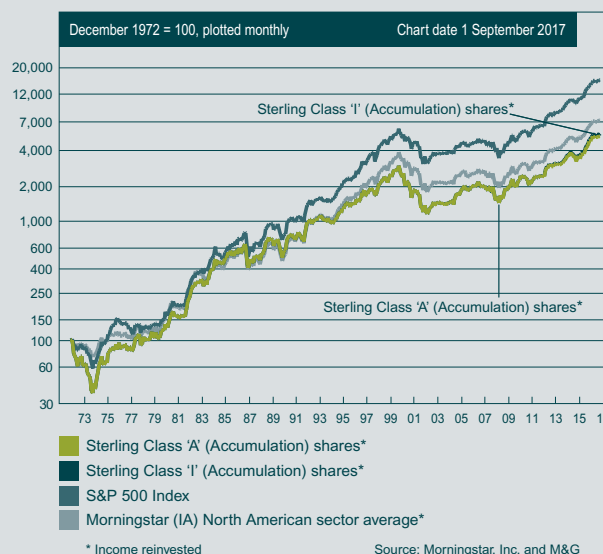
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 \$'000	2016 \$'000	2015 \$'000
Fund net asset value (NAV)	748,191	604,031	711,282

Performance since launch

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G North American Dividend Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+12.3	+11.5	+13.1	+4.0 ^[c]
Class 'A-H'	+17.8	+7.0	+11.3	+6.7 ^[d]
Class 'C'	+13.1	+12.4	+14.0	+4.7 ^[c]
Class 'C-H'	+18.6	+7.7	+12.1	+9.5 ^[e]
Sterling ^[f]				
Class 'A'	+22.9	+17.3	+16.7	+9.1 ^[g]
Class 'I'	+23.8	+18.2	+17.5	+17.7 ^[h]
Class 'R'	+23.5	+17.9	+17.2	+17.4 ^[h]
Class 'X'	+22.9	+17.3	+16.7	+12.1 ^[i]
US dollar ^[b]				
Class 'A'	+20.0	+7.9	+11.9	+5.4 ^[j]
Class 'C'	+20.9	+8.8	+12.8	+6.2 ^[j]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] 12 September 2008, the launch date of the share class.

^[e] 1 October 2010, the launch date of the share class.

^[f] Price to price with income reinvested.

^[g] 18 December 1972, the end of the initial offer period of the predecessor unit trust.

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

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

^[j] 9 March 2007, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G North American Dividend Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.04	0.05	0.11	0.07
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.04	0.05	0.11	0.07
Dilution adjustments ^[c]	(0.03)	(0.02)	(0.06)	(0.04)
Total direct portfolio transaction costs	0.01	0.03	0.05	0.03
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.05	0.03	0.05	0.04

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 8 August 2014.

for the year to 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,615.71	1,492.21	1,326.27
Return before operating charges and after direct portfolio transaction costs	212.05	186.86	202.87
Operating charges	(30.39)	(25.58)	(26.51)
Return after operating charges	181.66	161.28	176.36
Distributions	(39.12)	(37.78)	(10.42)
Closing NAV	1,758.25	1,615.71	1,492.21
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.81	0.80	1.87
Dilution adjustments ^[a]	(0.52)	(0.32)	(0.92)
Total direct portfolio transaction costs	0.29	0.48	0.95
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+11.24	+10.81	+13.30
Historic yield ^[c]	2.21	2.32	2.57
Effect on yield of charges offset against capital	1.66	1.66	0.00
Other information			
Closing NAV (\$'000)	642	320	395
Closing NAV percentage of total fund NAV (%)	0.09	0.05	0.06
Number of shares	30,780	17,756	23,481
Highest share price (Euro ¢)	1,960.26	1,639.36	1,765.26
Lowest share price (Euro ¢)	1,563.45	1,310.70	1,246.42

M&G North American Dividend Fund

Financial highlights

Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,666.94	1,502.91	1,326.70
Return before operating charges and after direct portfolio transaction costs	217.61	189.76	201.94
Operating charges	(31.06)	(25.73)	(25.73)
Return after operating charges	186.55	164.03	176.21
Distributions	(10.41)	(38.47)	(10.42)
Retained distributions	10.41	38.47	10.42
Closing NAV	1,853.49	1,666.94	1,502.91
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.83	0.81	1.80
Dilution adjustments ^[a]	(0.53)	(0.32)	(0.88)
Total direct portfolio transaction costs	0.30	0.49	0.92
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+11.19	+10.91	+13.28
Historic yield	0.56	2.29	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00
Other information			
Closing NAV (\$'000)	44,674	39,906	63,003
Closing NAV percentage of total fund NAV (%)	5.97	6.61	8.86
Number of shares	2,032,663	2,148,603	3,716,533
Highest share price (Euro ¢)	2,039.64	1,667.72	1,765.72
Lowest share price (Euro ¢)	1,613.06	1,326.84	1,246.83

Euro Class 'A-H' Accumulation share performance

The share class was launched on 12 September 2008.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,523.34	1,402.73	1,447.87
Return before operating charges and after direct portfolio transaction costs	277.78	144.53	(19.96)
Operating charges	(27.86)	(23.92)	(25.18)
Return after operating charges	249.92	120.61	(45.14)
Distributions	(9.35)	(34.72)	(7.41)
Retained distributions	9.35	34.72	7.41
Closing NAV	1,773.26	1,523.34	1,402.73
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.74	0.74	1.76
Dilution adjustments ^[a]	(0.47)	(0.30)	(0.86)
Total direct portfolio transaction costs	0.27	0.44	0.90
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.68	1.68	1.69
Return after operating charges	+16.41	+8.60	-3.12
Historic yield	0.52	2.25	2.57
Effect on yield of charges offset against capital	0.01	1.68	0.00
Other information			
Closing NAV (\$'000)	6,566	7,381	8,691
Closing NAV percentage of total fund NAV (%)	0.88	1.22	1.22
Number of shares	312,271	434,897	549,284
Highest share price (Euro ¢)	1,809.06	1,533.06	1,547.97
Lowest share price (Euro ¢)	1,487.27	1,249.66	1,312.82

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,757.37	1,610.87	1,427.29
Return before operating charges and after direct portfolio transaction costs	230.15	202.64	217.88
Operating charges	(17.95)	(15.14)	(15.94)
Return after operating charges	212.20	187.50	201.94
Distributions	(42.70)	(41.00)	(18.36)
Closing NAV	1,926.87	1,757.37	1,610.87
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.87	0.87	2.04
Dilution adjustments ^[a]	(0.56)	(0.35)	(1.00)
Total direct portfolio transaction costs	0.31	0.52	1.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+12.07	+11.64	+14.15
Historic yield ^[c]	2.20	2.32	2.57
Effect on yield of charges offset against capital	0.91	0.91	0.00
Other information			
Closing NAV (\$'000)	534	458	425
Closing NAV percentage of total fund NAV (%)	0.07	0.08	0.06
Number of shares	23,371	23,371	23,371
Highest share price (Euro ¢)	2,140.18	1,773.16	1,908.57
Lowest share price (Euro ¢)	1,701.05	1,419.73	1,342.71

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,833.85	1,641.04	1,437.91
Return before operating charges and after direct portfolio transaction costs	239.93	208.33	218.25
Operating charges	(19.09)	(15.52)	(15.12)
Return after operating charges	220.84	192.81	203.13
Distributions	(26.72)	(42.12)	(18.38)
Retained distributions	26.72	42.12	18.38
Closing NAV	2,054.69	1,833.85	1,641.04
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.93	0.89	1.92
Dilution adjustments ^[a]	(0.59)	(0.36)	(0.94)
Total direct portfolio transaction costs	0.34	0.53	0.98
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+12.04	+11.75	+14.13
Historic yield	1.29	2.29	2.57
Effect on yield of charges offset against capital	0.01	0.91	0.00
Other information			
Closing NAV (\$'000)	8,948	5,794	7,372
Closing NAV percentage of total fund NAV (%)	1.20	0.96	1.04
Number of shares	367,262	283,574	398,266
Highest share price (Euro ¢)	2,252.60	1,833.46	1,922.52
Lowest share price (Euro ¢)	1,775.18	1,453.69	1,352.61

M&G North American Dividend Fund

Financial highlights

Specific share class performance

Euro Class 'C-H' Accumulation share performance

The share class was launched on 1 October 2010.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,582.97	1,444.69	1,483.27
Return before operating charges and after direct portfolio transaction costs	287.90	152.00	(24.17)
Operating charges	(16.35)	(13.72)	(14.41)
Return after operating charges	271.55	138.28	(38.58)
Distributions	(22.78)	(35.90)	(16.30)
Retained distributions	22.78	35.90	16.30
Closing NAV	1,854.52	1,582.97	1,444.69

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.78	0.77	1.81
Dilution adjustments ^[a]	(0.50)	(0.31)	(0.89)
Total direct portfolio transaction costs	0.28	0.46	0.92

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	0.93	0.93	0.94
Return after operating charges	+17.15	+9.57	-2.60
Historic yield	1.21	2.23	2.57
Effect on yield of charges offset against capital	0.01	0.93	0.00

Other information

Closing NAV (\$'000)	24,964	19,404	18,349
Closing NAV percentage of total fund NAV (%)	3.34	3.21	2.58
Number of shares	1,135,240	1,100,176	1,126,027
Highest share price (Euro ¢)	1,890.45	1,592.69	1,592.15
Lowest share price (Euro ¢)	1,545.93	1,292.48	1,346.06

Sterling Class 'A' Income share performance

The share class was launched on 28 March 1977.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,497.51	1,195.17	1,150.89
Return before operating charges and after direct portfolio transaction costs	338.16	356.40	72.39
Operating charges	(28.51)	(21.41)	(20.99)
Return after operating charges	309.65	334.99	51.40
Distributions	(37.80)	(32.65)	(7.12)
Closing NAV	1,769.36	1,497.51	1,195.17

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.76	0.67	1.47
Dilution adjustments ^[a]	(0.49)	(0.27)	(0.72)
Total direct portfolio transaction costs	0.27	0.40	0.75

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.68	+28.03	+4.47
Historic yield ^[c]	2.13	2.18	2.57
Effect on yield of charges offset against capital	1.66	1.66	0.00

Other information

Closing NAV (\$'000)	110,940	70,190	114,027
Closing NAV percentage of total fund NAV (%)	14.82	11.62	16.03
Number of shares	4,869,596	3,567,993	6,199,992
Highest share price (UK p)	1,836.49	1,536.65	1,389.63
Lowest share price (UK p)	1,451.18	1,126.43	1,084.86

Sterling Class 'A' Accumulation share performance

The share class was launched on 18 December 1972.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,985.92	1,547.40	1,481.26
Return before operating charges and after direct portfolio transaction costs	449.53	466.35	93.07
Operating charges	(37.71)	(27.83)	(26.93)
Return after operating charges	411.82	438.52	66.14
Distributions	(12.94)	(42.63)	(8.23)
Retained distributions	12.94	42.63	8.23
Closing NAV	2,397.74	1,985.92	1,547.40

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.01	0.87	1.88
Dilution adjustments ^[a]	(0.64)	(0.35)	(0.93)
Total direct portfolio transaction costs	0.37	0.52	0.95

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.74	+28.34	+4.47
Historic yield	0.54	2.15	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00

Other information

Closing NAV (\$'000)	110,756	121,867	223,821
Closing NAV percentage of total fund NAV (%)	14.80	20.18	31.47
Number of shares	3,587,428	4,671,379	9,339,789
Highest share price (UK p)	2,456.41	2,019.25	1,788.53
Lowest share price (UK p)	1,924.53	1,462.85	1,396.28

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,776.58	1,407.32	1,352.17
Return before operating charges and after direct portfolio transaction costs	402.00	421.80	84.76
Operating charges	(18.63)	(13.96)	(13.62)
Return after operating charges	383.37	407.84	71.14
Distributions	(45.00)	(38.58)	(15.99)
Closing NAV	2,114.95	1,776.58	1,407.32

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.91	0.80	1.74
Dilution adjustments ^[a]	(0.58)	(0.32)	(0.85)
Total direct portfolio transaction costs	0.33	0.48	0.89

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+21.58	+28.98	+5.26
Historic yield ^[c]	2.12	2.18	2.57
Effect on yield of charges offset against capital	0.91	0.91	0.00

Other information

Closing NAV (\$'000)	98,924	74,437	55,700
Closing NAV percentage of total fund NAV (%)	13.22	12.32	7.83
Number of shares	3,632,653	3,189,496	2,572,048
Highest share price (UK p)	2,187.48	1,822.42	1,640.34
Lowest share price (UK p)	1,722.15	1,330.79	1,275.88

M&G North American Dividend Fund

Financial highlights

Specific share class performance

Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,869.47	1,445.74	1,373.57
Return before operating charges and after direct portfolio transaction costs	424.33	438.21	86.01
Operating charges	(19.65)	(14.48)	(13.84)
Return after operating charges	404.68	423.73	72.17
Distributions	(28.34)	(39.95)	(16.25)
Retained distributions	28.34	39.95	16.25
Closing NAV	2,274.15	1,869.47	1,445.74
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.96	0.83	1.77
Dilution adjustments ^[a]	(0.61)	(0.33)	(0.87)
Total direct portfolio transaction costs	0.35	0.50	0.90
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+21.65	+29.31	+5.25
Historic yield	1.24	2.14	2.57
Effect on yield of charges offset against capital	0.01	0.91	0.00
Other information			
Closing NAV (\$'000)	169,127	149,540	108,821
Closing NAV percentage of total fund NAV (%)	22.60	24.76	15.30
Number of shares	5,775,827	6,089,177	4,891,465
Highest share price (UK p)	2,321.68	1,900.29	1,666.20
Lowest share price (UK p)	1,812.26	1,367.56	1,296.01

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	177.06	140.60	135.20
Return before operating charges and after direct portfolio transaction costs	40.01	42.08	8.49
Operating charges	(2.35)	(1.77)	(1.73)
Return after operating charges	37.66	40.31	6.76
Distributions	(4.48)	(3.85)	(1.36)
Closing NAV	210.24	177.06	140.60
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.08	0.17
Dilution adjustments ^[a]	(0.06)	(0.03)	(0.09)
Total direct portfolio transaction costs	0.03	0.05	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.16	1.16	1.16
Return after operating charges	+21.27	+28.67	+5.00
Historic yield ^[c]	2.12	2.18	2.57
Effect on yield of charges offset against capital	1.16	1.16	0.00
Other information			
Closing NAV (\$'000)	285	264	205
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.03
Number of shares	105,373	113,526	94,473
Highest share price (UK p)	217.71	181.64	163.76
Lowest share price (UK p)	171.61	132.81	127.53

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	185.01	143.44	136.62
Return before operating charges and after direct portfolio transaction costs	41.93	43.40	8.57
Operating charges	(2.44)	(1.83)	(1.75)
Return after operating charges	39.49	41.57	6.82
Distributions	(2.27)	(3.96)	(1.37)
Retained distributions	2.27	3.96	1.37
Closing NAV	224.50	185.01	143.44
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.08	0.17
Dilution adjustments ^[a]	(0.06)	(0.03)	(0.09)
Total direct portfolio transaction costs	0.03	0.05	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.16	1.16	1.16
Return after operating charges	+21.34	+28.98	+4.99
Historic yield	1.01	2.14	2.57
Effect on yield of charges offset against capital	0.01	1.16	0.00
Other information			
Closing NAV (\$'000)	138	190	125
Closing NAV percentage of total fund NAV (%)	0.02	0.03	0.02
Number of shares	47,572	78,113	56,226
Highest share price (UK p)	229.45	188.08	165.47
Lowest share price (UK p)	179.33	135.66	128.87

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,495.33	1,193.41	1,149.31
Return before operating charges and after direct portfolio transaction costs	337.50	355.95	72.34
Operating charges	(28.30)	(21.43)	(20.99)
Return after operating charges	309.20	334.52	51.35
Distributions	(37.74)	(32.60)	(7.25)
Closing NAV	1,766.79	1,495.33	1,193.41
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.76	0.67	1.47
Dilution adjustments ^[a]	(0.48)	(0.27)	(0.72)
Total direct portfolio transaction costs	0.28	0.40	0.75
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.68	+28.03	+4.47
Historic yield ^[c]	2.13	2.18	2.57
Effect on yield of charges offset against capital	1.66	1.66	0.00
Other information			
Closing NAV (\$'000)	12,339	12,437	13,683
Closing NAV percentage of total fund NAV (%)	1.65	2.06	1.92
Number of shares	542,391	633,140	745,090
Highest share price (UK p)	1,833.82	1,534.42	1,387.73
Lowest share price (UK p)	1,449.07	1,124.79	1,083.38

M&G North American Dividend Fund

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 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,956.98	1,524.84	1,459.65
Return before operating charges and after direct portfolio transaction costs	443.10	459.69	91.70
Operating charges	(37.26)	(27.55)	(26.51)
Return after operating charges	405.84	432.14	65.19
Distributions	(12.77)	(41.98)	(8.58)
Retained distributions	12.77	41.98	8.58
Closing NAV	2,362.82	1,956.98	1,524.84
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.00	0.87	1.85
Dilution adjustments ^[a]	(0.64)	(0.35)	(0.91)
Total direct portfolio transaction costs	0.36	0.52	0.94
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.74	+28.34	+4.47
Historic yield	0.54	2.15	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00
Other information			
Closing NAV (\$'000)	44,083	44,502	53,058
Closing NAV percentage of total fund NAV (%)	5.89	7.37	7.46
Number of shares	1,448,962	1,731,070	2,261,211
Highest share price (UK p)	2,420.64	1,989.86	1,762.43
Lowest share price (UK p)	1,896.51	1,441.52	1,375.92

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,412.31	1,320.31	1,373.39
Return before operating charges and after direct portfolio transaction costs	281.22	146.96	(20.10)
Operating charges	(23.50)	(22.57)	(23.53)
Return after operating charges	257.72	124.39	(43.63)
Distributions	(34.31)	(32.39)	(9.45)
Closing NAV	1,635.72	1,412.31	1,320.31
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.63	0.71	1.64
Dilution adjustments ^[a]	(0.40)	(0.28)	(0.81)
Total direct portfolio transaction costs	0.23	0.43	0.83
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.62*	1.66
Return after operating charges	+18.25	+9.42	-3.18
Historic yield ^[c]	2.08	2.28	2.57
Effect on yield of charges offset against capital	1.66	1.62	0.00
Other information			
Closing NAV (\$'000)	1,245	87	103
Closing NAV percentage of total fund NAV (%)	0.17	0.01	0.01
Number of shares	76,102	6,171	7,833
Highest share price (US ¢)	1,682.50	1,435.97	1,471.78
Lowest share price (US ¢)	1,378.83	1,165.78	1,246.17

* Due to a large creation during the period, 1.66% is a more reliable estimate of the ongoing charges.

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,458.09	1,330.80	1,373.67
Return before operating charges and after direct portfolio transaction costs	294.32	149.79	(19.45)
Operating charges	(27.12)	(22.50)	(23.42)
Return after operating charges	267.20	127.29	(42.87)
Distributions	(9.20)	(33.14)	(9.45)
Retained distributions	9.20	33.14	9.45
Closing NAV	1,725.29	1,458.09	1,330.80
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.73	0.71	1.64
Dilution adjustments ^[a]	(0.46)	(0.28)	(0.80)
Total direct portfolio transaction costs	0.27	0.43	0.84
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+18.33	+9.56	-3.12
Historic yield	0.53	2.26	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00
Other information			
Closing NAV (\$'000)	76,684	23,540	24,445
Closing NAV percentage of total fund NAV (%)	10.25	3.90	3.44
Number of shares	4,444,680	1,614,461	1,836,895
Highest share price (US ¢)	1,759.25	1,469.10	1,473.19
Lowest share price (US ¢)	1,423.57	1,181.07	1,247.48

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,499.33	1,391.14	1,441.29
Return before operating charges and after direct portfolio transaction costs	302.06	155.38	(21.30)
Operating charges	(14.91)	(12.72)	(13.32)
Return after operating charges	287.15	142.66	(34.62)
Distributions	(36.74)	(34.47)	(15.53)
Closing NAV	1,749.74	1,499.33	1,391.14
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.73	0.74	1.70
Dilution adjustments ^[a]	(0.46)	(0.29)	(0.83)
Total direct portfolio transaction costs	0.27	0.45	0.87
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	0.90	0.90	0.91
Return after operating charges	+19.15	+10.25	-2.40
Historic yield ^[c]	2.08	2.28	2.57
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (\$'000)	20	18	23
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	1,171	1,171	1,671
Highest share price (US ¢)	1,798.37	1,524.30	1,551.95
Lowest share price (US ¢)	1,464.25	1,232.56	1,310.22

M&G North American Dividend Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August	2017	2016	2015
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,564.34	1,417.17	1,451.95
Return before operating charges and after direct portfolio transaction costs	316.71	160.47	(21.28)
Operating charges	(15.81)	(13.30)	(13.50)
Return after operating charges	300.90	147.17	(34.78)
Distributions	(22.93)	(35.36)	(15.91)
Retained distributions	22.93	35.36	15.91
Closing NAV	1,865.24	1,564.34	1,417.17
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.77	0.76	1.72
Dilution adjustments ^[a]	(0.49)	(0.30)	(0.84)
Total direct portfolio transaction costs	0.28	0.46	0.88
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+19.23	+10.38	-2.40
Historic yield	1.22	2.25	2.57
Effect on yield of charges offset against capital	0.01	0.91	0.00
Other information			
Closing NAV (\$'000)	37,322	33,696	19,036
Closing NAV percentage of total fund NAV (%)	4.99	5.58	2.67
Number of shares	2,000,941	2,154,034	1,343,330
Highest share price (US ¢)	1,900.55	1,575.93	1,563.69
Lowest share price (US ¢)	1,527.79	1,261.95	1,319.86

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

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

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

M&G North American Dividend Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 August	Note	2017		2016	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		115,449		49,306
Revenue	5	18,022		17,863	
Expenses	6	(9,281)		(8,734)	
Net revenue / (expense) before taxation		8,741		9,129	
Taxation	7	(2,407)		(2,293)	
Net revenue / (expense) after taxation			6,334		6,836
Total return before distributions			121,783		56,142
Distributions	8		(9,194)		(15,576)
Change in net assets attributable to shareholders from investment activities			112,589		40,566

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		604,031		711,282
Amounts received on issue of shares	269,799		147,996	
Amounts paid on cancellation of shares	(243,039)		(306,995)	
		26,760		(158,999)
Dilution adjustments		310		190
Change in net assets attributable to shareholders from investment activities (see above)		112,589		40,566
Retained distributions on Accumulation shares		4,501		10,989
Unclaimed distributions		0		3
Closing net assets attributable to shareholders		748,191		604,031

Balance sheet

as at 31 August	Note	2017 \$'000	2016 \$'000
Assets			
Fixed assets			
Investments		750,698	603,911
Current assets			
Debtors	9	5,577	2,745
Cash and bank balances	10	11	745
Total assets		756,286	607,401
Liabilities			
Investment liabilities		(1)	(288)
Creditors			
Bank overdrafts		0	(201)
Distribution payable		(1,975)	(1,452)
Other creditors	11	(6,119)	(1,429)
Total liabilities		(8,095)	(3,370)
Net assets attributable to shareholders		748,191	604,031

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's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for reinvestment to Accumulation shares, the annual management charge, administration charge and share class hedging charge are no longer offset against capital, reducing the amount available for reinvestment. The audit, depositary, and safe custody charges continue to be offset against capital, increasing the amount available for reinvestment, whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest continue to be offset against capital, increasing the amount available for distribution, whilst restraining capital performance to an equivalent extent.

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

3 Net capital gains / (losses)

for the year to 31 August	2017 \$'000	2016 \$'000
Non-derivative securities	114,206	50,484
Derivative contracts	1,331	(658)
Capital gains on US REIT	26	0
Currency gains / (losses)	(104)	(509)
Transaction charges	(10)	(11)
Net capital gains / (losses)	115,449	49,306

M&G North American Dividend Fund

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 pages 162 and 163.

for the year to 31 August	2017 \$'000	% of transaction	2016 \$'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	348,572		223,720	
Commissions	169	0.05	129	0.06
Total purchases after transaction costs	348,741		223,849	
b) Sales				
Equities				
Equities before transaction costs	333,673		385,879	
Commissions	(137)	0.04	(195)	0.05
Taxes	(6)	0.00	(7)	0.00
Total sales after transaction costs	333,530		385,677	
c) Direct portfolio transaction costs				
	2017 \$'000	% of average NAV	2016 \$'000	% of average NAV
Commissions paid				
Equities	306	0.04	324	0.05
Taxes paid				
Equities	6	0.00	7	0.00
Total direct portfolio transaction costs ^[a]	312	0.04	331	0.05
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread ^[b]		0.05		0.03

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

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

5 Revenue

for the year to 31 August	2017 \$'000	2016 \$'000
Bank interest	3	1
Derivative revenue	10	0
Dividends from equity investments: non-taxable	17,717	17,802
Dividends from equity investments: taxable	141	19
Interest distributions	151	41
Total revenue	18,022	17,863

6 Expenses

for the year to 31 August	2017 \$'000	2016 \$'000
Payable to the ACD or associate		
Annual management charge	8,142	7,707
Administration charge	1,053	955
Share class hedging charge	5	5
	9,200	8,667
Payable to the Depository or associate		
Depository's charge (including VAT)	48	45
Other expenses		
Audit fee (including VAT)	11	11
Interest payable	3	1
Safe custody charge	21	16
Tax fees (including VAT)	1	1
	36	29
VAT recoverable		
Current year	0	(2)
Prior year	(3)	(5)
	(3)	(7)
Total expenses	9,281	8,734

7 Taxation

for the year to 31 August	2017 \$'000	2016 \$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	2,407	2,293
Deferred tax (note 7c)	0	0
Total taxation	2,407	2,293
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	8,741	9,129
Corporation tax at 20%	1,748	1,826
Effects of:		
Dividends from equity investments: non-taxable	(3,543)	(3,560)
Current year expenses not utilised	1,792	1,734
Withholding tax	2,407	2,293
Withholding tax expensed	(2)	0
Capital gains tax (US REIT)	5	0
Total tax charge (note 7a)	2,407	2,293
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 \$37,267,000 (2016: \$35,475,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

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8 Distributions

for the year to 31 August	2017		2016	
	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Dividend distributions				
First interim	898	888	857	2,469
Second interim	881	845	746	2,266
Third interim	944	893	779	2,204
Final	1,975	1,875	1,452	4,050
Total net distributions		9,199		14,823
Income deducted on cancellation of shares		691		1,386
Income received on issue of shares		(696)		(633)
Distributions		9,194		15,576
Net revenue / (expense) per statement of total return		6,334		6,836
Expenses offset against capital		2,852		8,740
Capital gains tax offset against capital		8		0
Distributions		9,194		15,576

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 August	2017 \$'000	2016 \$'000
Amounts receivable on issues of shares	122	47
Currency deals outstanding	1,750	411
Distributions receivable	28	5
Dividends receivable	1,301	1,236
Sales awaiting settlement	2,229	899
Withholding tax recoverable	147	147
Total debtors	5,577	2,745

10 Cash and bank balances

as at 31 August	2017 \$'000	2016 \$'000
Cash held as bank balances	11	745
Total cash and bank balances	11	745

11 Other creditors

as at 31 August	2017 \$'000	2016 \$'000
ACD's annual management charge payable	404	305
Administration charge payable	52	40
Amounts payable on cancellation of shares	2,772	655
Currency deals outstanding	1,754	408
Expenses payable	19	21
Purchases awaiting settlement	1,118	0
Total other creditors	6,119	1,429

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening	Movements		Closing 31.08.17
	01.09.16	Issued	Cancelled	
Euro				
Class 'A' Income	17,756	22,846	(9,822)	30,780
Class 'A' Accumulation	2,148,603	1,061,226	(1,177,166)	2,032,663
Class 'A-H' Accumulation	434,897	221,736	(344,362)	312,271
Class 'C' Income	23,371	0	0	23,371
Class 'C' Accumulation	283,574	239,869	(156,181)	367,262
Class 'C-H' Accumulation	1,100,176	161,835	(126,771)	1,135,240
Sterling				
Class 'A' Income	3,567,993	2,076,346	(774,743)	4,869,596
Class 'A' Accumulation	4,671,379	267,362	(1,351,313)	3,587,428
Class 'I' Income	3,189,496	1,231,930	(788,773)	3,632,653
Class 'I' Accumulation	6,089,177	636,242	(949,592)	5,775,827
Class 'R' Income	113,526	18,067	(26,220)	105,373
Class 'R' Accumulation	78,113	18,901	(49,442)	47,572
Class 'X' Income	633,140	12,207	(102,956)	542,391
Class 'X' Accumulation	1,731,070	22,270	(304,378)	1,448,962
US dollar				
Class 'A' Income	6,171	766,780	(696,849)	76,102
Class 'A' Accumulation	1,614,461	6,467,924	(3,637,705)	4,444,680
Class 'C' Income	1,171	0	0	1,171
Class 'C' Accumulation	2,154,034	1,356,548	(1,509,641)	2,000,941

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
Euro				
Class 'A'	5.25	n/a	1.50	n/a
Class 'A-H'	5.25	n/a	1.50	[a]
Class 'C'	3.25	n/a	0.75	n/a
Class 'C-H'	3.25	n/a	0.75	[a]
Sterling				
Class 'A'	4.00 [b]	n/a	1.50	n/a
Class 'I'	1.00 [b]	n/a	0.75	n/a
Class 'R'	1.00 [b]	n/a	1.00	n/a
Class 'X'	nil	4.50 [c]	1.50	n/a
US dollar				
Class 'A'	5.25	n/a	1.50	n/a
Class 'C'	3.25	n/a	0.75	n/a

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

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

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

M&G North American Dividend Fund

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15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 5.84% (2016: 0.50%) of the fund's shares.

16 Events after the balance sheet date

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

17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets	Liabilities	Assets	Liabilities
	2017 \$'000	2017 \$'000	2016 \$'000	2016 \$'000
Level 1	722,489	0	593,702	0
Level 2	28,209	(1)	10,209	(288)
Level 3	0	0	0	0
	750,698	(1)	603,911	(288)

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 \$36,124,000 (2016: \$29,672,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by \$37,410,000 (2016: \$30,202,000). A five per cent decrease would have an equal and opposite effect.

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.

as at 31 August	2017 \$'000	2016 \$'000
Currency exposure in respect of the fund		
Canadian dollar	76,745	62,020
Euro	(15)	(45)
Sterling	(2,115)	(1,611)
US dollar	673,235	543,935
Currency exposure in respect of share class hedging		
Canadian dollar	(3,184)	(2,799)
Euro	31,356	26,800
US dollar	(27,831)	(24,269)
Total	748,191	604,031

M&G North American Dividend Fund

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21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

The table below sets out the counterparty exposure and collateral held to mitigate credit risk.

as at 31 August 2017	Forward currency contracts \$'000	Net exposure \$'000
State Street Bank	341	341
Total	341	341

as at 31 August 2016	Forward currency contracts \$'000	Net exposure \$'000
State Street Bank	(269)	(269)
Total	(269)	(269)

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

Quarterly distribution periods				
	Start	End	Xd	Payment
First interim	01.09.16	30.11.16	01.12.16	31.01.17
Second interim	01.12.16	28.02.17	01.03.17	30.04.17
Third interim	01.03.17	31.05.17	01.06.17	31.07.17
Final	01.06.17	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.0000	7.9957	7.9957	7.8714
Second interim	0.0000	7.8036	7.8036	7.5434
Third interim	0.0000	7.9558	7.9558	7.4407
Final	3.1289	12.2374	15.3663	14.9230

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.1112	2.0835	2.1947	8.0055
Second interim	0.0000	1.9938	1.9938	7.6423
Third interim	0.0000	2.0600	2.0600	7.5611
Final	1.0604	3.1051	4.1655	15.2605

Euro Class 'A-H' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.0000	1.9334	1.9334	7.2628
Second interim	0.0000	1.8317	1.8317	6.8465
Third interim	0.0000	1.8100	1.8100	6.8424
Final	0.3738	3.4051	3.7789	13.7671

Euro Class 'C' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	8.7028	0.0000	8.7028	8.5535
Second interim	8.5069	0.0000	8.5069	8.1697
Third interim	8.6864	0.0000	8.6864	8.0665
Final	16.8072	0.0000	16.8072	16.2118

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.6497	4.8541	5.5038	8.7538
Second interim	0.2924	4.9584	5.2508	8.3646
Third interim	0.0000	5.3906	5.3906	8.2896
Final	1.9852	8.5876	10.5728	16.7142

Euro Class 'C-H' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	4.4970	0.0000	4.4970	7.4598
Second interim	0.5307	3.8666	4.3973	7.0676
Third interim	0.0000	4.5705	4.5705	7.0819
Final	9.3163	0.0000	9.3163	14.2868

M&G North American Dividend Fund

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23 Dividend distribution tables (continued)

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	1.6835	5.7787	7.4622	6.1193
Second interim	0.4563	6.8174	7.2737	6.4360
Third interim	0.0000	7.5150	7.5150	6.3333
Final	4.1592	11.3883	15.5475	13.7586

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	0.0000	2.6306	2.6306	7.9239
Second interim	0.0000	2.3889	2.3889	8.3678
Third interim	0.0000	2.5015	2.5015	8.2698
Final	0.9425	4.4740	5.4165	18.0716

Sterling Class 'I' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	1.5648	7.2909	8.8557	7.2118
Second interim	0.7757	7.8726	8.6483	7.5954
Third interim	0.0000	8.9493	8.9493	7.4872
Final	9.1296	9.4186	18.5482	16.2889

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	0.2018	5.3919	5.5937	7.4086
Second interim	0.0000	5.3793	5.3793	7.8359
Third interim	0.0000	5.5996	5.5996	7.7577
Final	3.8933	7.8706	11.7639	16.9479

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	0.4629	0.4195	0.8824	0.7204
Second interim	0.0000	0.8612	0.8612	0.7583
Third interim	0.0000	0.8908	0.8908	0.7470
Final	0.3704	1.4746	1.8450	1.6232

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	0.4511	0.0000	0.4511	0.7351
Second interim	0.0000	0.4290	0.4290	0.7768
Third interim	0.0000	0.4468	0.4468	0.7687
Final	0.9437	0.0000	0.9437	1.6783

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	0.8778	6.5722	7.4500	6.1107
Second interim	0.0000	7.2630	7.2630	6.4266
Third interim	0.0000	7.5041	7.5041	6.3241
Final	3.7159	11.8090	15.5249	13.7397

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
First interim	0.1651	2.4467	2.6118	7.8084
Second interim	0.0000	2.3555	2.3555	8.2458
Third interim	0.0000	2.4653	2.4653	8.1492
Final	0.5632	4.7745	5.3377	17.7783

US dollar Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
First interim	3.3023	3.1977	6.5000	6.5000
Second interim	0.0000	6.5000	6.5000	6.5000
Third interim	0.0000	7.0000	7.0000	6.5000
Final	4.0803	10.2320	14.3123	12.8907

US dollar Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
First interim	0.0000	1.8424	1.8424	6.6504
Second interim	0.0000	1.6658	1.6658	6.5947
Third interim	0.0000	1.8145	1.8145	6.6104
Final	1.2760	2.5977	3.8737	13.2823

US dollar Class 'C' Income shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
First interim	7.0908	0.0000	7.0908	6.9500
Second interim	6.9300	0.0000	6.9300	6.8761
Third interim	7.4611	0.0000	7.4611	6.8768
Final	15.2532	0.0000	15.2532	13.7681

US dollar Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	¢	¢	¢	¢
First interim	1.3184	3.1244	4.4428	7.0874
Second interim	0.0000	4.2739	4.2739	7.0386
Third interim	0.0000	4.6296	4.6296	7.0680
Final	2.5733	7.0146	9.5879	14.1653

M&G North American Value Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund aims to achieve long-term capital growth through investment in North American securities of North American companies using a value based investment philosophy.

Investment approach

The M&G North American Value Fund employs a bottom-up stockpicking approach to identify shares of North American companies that the fund manager believes are undervalued. He seeks to identify companies that are mispriced, while trying to avoid firms that are cheap for a reason and whose share prices are unlikely to improve over time.

The fund's approach combines strict value-focused screening with rigorous qualitative analysis to ensure the fund has a consistent and disciplined value bias, without compromising on the robustness of the companies in the portfolio. Stock selection involves three stages: screening, fundamental analysis and portfolio construction. The screening process is used to find the cheapest 25% of companies in each sector. The manager then undertakes fundamental analysis of these companies to identify and exclude those with structural and financial problems that could prevent the share price recovering. The final stage is portfolio construction where the aim is to create a diversified portfolio of 60-100 companies whose true value the manager believes is being mispriced. The main driver of returns is expected to be the value style rather than any individual sector or stock.

The fund has a long-term investment horizon (stocks are typically held for three to five years) to give time for share prices to reach a valuation that reflects the true value of the business.

Risk profile

The fund invests in the shares of North American companies and is, therefore, subject to the price volatility of the North American stockmarkets and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on companies that are deemed to be undervalued or out of favour with the market, and whose potential value, in the fund manager's view, is yet to be reflected in the share price. 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 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 changed during this period. From 1 September 2016 to 30 December 2016 the risk number was 6.

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G North American Value Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.*

Returns from the euro share classes were more modest than those of the sterling and US dollar share classes on account of the appreciation of the euro. The relative strength of the currency dampened the value of the gains in overseas assets for euro-based investors.

The fund's returns in the majority of its share classes were behind a comparative index, the S&P 500 Index. The only share class to outperform the index was the US dollar Class 'C' shares, while the Sterling Class 'I' shares were in line. Over the 12 months, returns for the index were 9.8%, 19.4% and 16.5% in euros, sterling and US dollars, respectively.

Over five years and since launch, the fund met its investment objective; it delivered a positive return, reflecting value added through stock selection and the robust recovery of US stockmarkets after the global financial crisis in 2008/9.

Investment performance

US stockmarkets continued their multi-year rally during the 12 months under review and climbed to new record highs. Investors' risk appetite was supported by improving economic conditions and robust corporate performance.

The surprise election of Donald Trump as US president in November 2016 was a catalyst for stockmarket gains as investors were excited about the prospect of policies such as tax cuts and infrastructure spending designed to boost the US economy.

This enthusiasm waned somewhat amid uncertainty about President Trump's ability to implement his proposed reforms. The administration struggled to pass legislation to repeal the healthcare system introduced by President Obama and had not made any progress with tax reforms by the end of the period.

M&G North American Value Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Politics aside, company share prices (equities) advanced against the backdrop of a steadily improving economy. The employment market remained in good shape with consistently robust job creation figures and wage growth. Consumer spending, which is one of the most important elements of the US economy, also remained resilient, arguably supported by the healthy labour market.

The ongoing US economic recovery encouraged the US Federal Reserve (the Fed) to remove some of the stimulus measures put in place after the financial crisis of 2008/9. There were three interest rate rises during the period and, with inflationary pressures starting to rise, there were expectations that further hikes would come. The Fed also announced plans to reduce the \$4.5 trillion of assets it had acquired after the crisis.

Over the review period, the information technology sector was the best performing area as investors favoured hardware and component manufacturers and internet and social media companies with attractive growth prospects. The so-called FANG stocks (Facebook, Amazon.com, Netflix and Google) attracted much attention as they made healthy share price gains.

Financial stocks also outperformed as investors expected the sector to benefit from rising interest rates and stronger economic activity. Industrials were in demand too, as they are typically closely linked to economic growth.

With the upturn in confidence and rising interest rates, there was a notable shift away from 'defensive' stocks, which are perceived to be resilient during times of market uncertainty, and so-called 'bond proxies', companies that deliver steady income payments. As a result, consumer staples and telecommunication services were notable laggards.

Energy stocks were lacklustre too. Oil prices remained depressed during the period amid persistent concerns about the global oversupply of oil.

Over the period, so-called 'growth' stocks, which tend to deliver high revenue growth, outperformed cheap, out-of-favour 'value' stocks. (Value stocks are deemed to be trading below their true worth or long-term prospects). Value stocks had been in favour in 2016 but there was a notable rotation towards growth stocks in 2017, particularly in the technology sector. This trend created a headwind for the fund's value-focused approach.

Turning to fund performance over the review period, not owning shares in large index constituent Apple was the biggest single detractor from relative performance. The technology firm's share price climbed to the highest ever level on better than expected corporate earnings driven by a rebound in iPhone sales after declines in recent years.

As the energy sector underperformed, a number of the fund's energy-related holdings cost some performance. Oil & gas exploration firms Hess, Occidental Petroleum and Cobalt International Energy and Helmerich & Payne, a provider of drilling services for onshore oil & gas explorers, were leading detractors as investors worried that increased production and large stockpiles in the US would keep oil prices depressed.

In the consumer discretionary sector, the holding in Target, a retailer, also detracted. Target's share price fell on the back of a decline in quarterly earnings, following a disappointing holiday season, and a weak outlook for sales. Along with other traditional retail businesses, Target is struggling with consumers' shift towards online shopping.

Meanwhile, in the consumer staples sector, the holdings in Molson Coors Brewing, a beer company, and Tyson Foods, a meat producer, detracted. Molson Coors' share price fell sharply after the company provided a disappointing outlook for future expenditure and margins, while Tyson's results were weaker than expected and the company announced that it was replacing its chief executive.

On a positive note, the fund's allocation to financials, one of the best-performing sectors, was helpful, with both the above-index position and stock selection adding value. The holdings in financial groups Citigroup, Goldman Sachs, JPMorgan Chase & Co, and PNC Financial Services were among the leading contributors to performance as their share prices advanced on the prospect of higher interest rates, which should boost their profitability, as well as potential regulatory reform of the banking sector.

Stock selection in the industrials sector was positive too. The holding in Spirit AeroSystems, a manufacturer of aircraft parts, added value as the company's share price rose on better-than-expected results and higher revenue forecasts. Increased demand for parts from Airbus, one of the firm's biggest customers, boosted profits.

The share price of ManpowerGroup, a recruitment firm with businesses in the US and Europe, also rallied. We purchased the stock when the share price fell after the UK voted in June 2016 to leave the European Union. Since then the shares have rebounded, buoyed by optimism about the economic outlook in both the US and Europe.

While stock selection in information technology was negative overall, the holding in Western Digital, a hard disk manufacturer, made a positive contribution as the share price gained on robust results. Investors are increasingly optimistic about Western Digital's prospects following its recent acquisition of SanDisk, a manufacturer of memory storage products.

Meanwhile, Micron, a semiconductor firm, was another notable contributor. The maker of memory chips used in smartphones and servers has benefited from optimism about future demand and pricing for chips.

Investment activities

During the review period, we identified new opportunities in a range of different sectors and sold several holdings that had performed well. At the end of the period, the fund held 85 stocks.

In consumer staples, we started a position in Coca-Cola European Partners, which was formed in 2016 when three European Coke bottlers merged. In our view, the shares trade on an attractive valuation, and once the restructuring is complete, the company's cashflows should benefit from cost savings, synergies and reduced capital expenditure.

Financial firms Affiliated Managers, an asset management company, and Voya Financial, a provider of investments and life insurance, also joined the portfolio. We believe Affiliated Managers is a well-positioned business that has consistently generated inflows greater than the rest of the market while Voya has a robust balance sheet and should benefit from rising interest rates.

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Investment review

Investment activities (continued)

We also started a position in Steel Dynamics, a steel producer. In our view, the possibility of tariffs or import curbs could create a more favourable environment for US domestic steel producers while domestic demand is improving.

In addition, we bought some more shares in a number of existing holdings which experienced weakness during the period. These included the above-mentioned Target and Molson Coors, as well as Johnson & Johnson, a healthcare products firm, and Pfizer, a drug company.

These purchases were funded by selling several stocks that had performed well, most notably Conagra Brands, a manufacturer of packaged foods that supplies retailers and restaurants. Conagra's share price has gained on the company's efforts to spin off part of its business and focus on its core operations. We also closed the position in Cummins, a manufacturer of industrial diesel engines, which had rallied in anticipation of increased spending on infrastructure.

Stryker, a medical technology firm, and Parker Hannifin, a manufacturer of motion and control technologies, were also sold after a period of good share price performance. While there has been an improvement in Parker Hannifin's underlying fundamentals, we believe this is now reflected in the stock's valuation.

Elsewhere, we took some profits by trimming our positions in Altria, a cigarette company, and Best Buy, an electronics retailer, which had performed well.

Outlook

US stockmarkets have risen steadily in recent years to peak at record highs. However, even though the market is trading at elevated levels, we believe there are opportunities available in the US for value-focused investors.

In our view, value stocks currently look attractive both in comparison with growth stocks and their own history. After a brief recovery in 2016, the value style has struggled this year as investors have favoured growth stocks. While growth stocks have arguably become even more expensive than they were at the beginning of the year, value stocks are still relatively cheap, in our opinion.

This situation has created a wide divergence in valuations between the most expensive part of the market and the cheapest. In fact, it is almost as wide as it has ever been. As a result, we believe the potential rewards from investing in value stocks could be significant if this valuation gap were to narrow. While it is hard to predict catalysts for a style shift, we think the ongoing economic recovery in the US and the improvement in company earnings should be supportive of a value-based approach.

While we are optimistic about value's long-term prospects, we recognise that there may be some challenges along the way. There are plenty of political and economic uncertainties that could unsettle investors, not least the future path of interest rates, uncertainty around President Trump's policies and rising geopolitical tension. In this environment, we believe a selective value approach is essential.

We will continue to apply our disciplined stockpicking approach to identify companies that are being mispriced by the market, while avoiding stocks with material problems that could prevent the share price from recovering. We believe the fund is well placed to be able to capture the value opportunities that exist in the US market, while being well diversified across sectors amid an uncertain environment.

Daniel White Fund manager

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

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

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

Investments

Portfolio statement

as at 31 August	2017	2017	2016
Holding	\$'000	%	%
Oil & gas producers	65,645	7.80	7.63
172,846 Chevron	18,610	2.21	
76,038 Cobalt International Energy	138	0.02	
288,345 ConocoPhillips	12,520	1.49	
221,554 Hess	8,512	1.01	
1,188,102 Kosmos Energy	8,162	0.97	
204,640 Occidental Petroleum	12,115	1.44	
179,581 Suncor Energy	5,588	0.66	
Oil equipment, services & distribution	5,191	0.62	0.53
121,751 Helmerich & Payne	5,191	0.62	
Chemicals	0	0.00	0.60
Forestry & paper	5,161	0.61	0.67
128,874 Domtar	5,161	0.61	
Industrial metals & mining	8,512	1.01	0.00 ^[a]
244,531 Steel Dynamics	8,512	1.01	
Mining	10,675	1.27	1.03
280,616 Newmont Mining	10,675	1.27	
Construction & materials	6,000	0.71	1.03
61,461 Eagle Materials	6,000	0.71	
Aerospace & defence	8,564	1.02	0.86
116,595 Spirit AeroSystems	8,564	1.02	
General industrials	9,193	1.09	1.70 ^[a]
163,757 WestRock	9,193	1.09	
Electronic & electrical equipment	17,472	2.07	2.19 ^[a]
393,805 AVX	6,821	0.81	
564,544 Celestica	6,406	0.76	
241,906 Vishay Intertechnology	4,245	0.50	
Industrial engineering	15,925	1.90	2.52 ^[a]
122,124 Oshkosh	9,057	1.08	
209,394 SPX FLOW	6,868	0.82	
Industrial transportation	15,295	1.82	1.36
591,884 Euronav	4,439	0.53	
50,785 FedEx	10,856	1.29	

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Investments

Portfolio statement (continued)			
as at 31 August Holding	2017 \$'000	2017 %	2016 %
Support services	29,580	3.52	1.96 [a]
525,047 Conduent	8,732	1.04	
90,184 ManpowerGroup	9,952	1.18	
337,467 Xerox	10,896	1.30	
Automobiles & parts	16,012	1.90	1.75 [a]
188,026 General Motors	6,733	0.80	
199,116 Magna International	9,279	1.10	
Beverages	27,648	3.29	1.47 [a]
291,304 Coca-Cola European Partners	12,480	1.49	
169,234 Molson Coors Brewing	15,168	1.80	
Food producers	16,110	1.91	2.63
181,039 Lamb Weston Holdings	8,176	0.97	
127,030 Tyson Foods	7,934	0.94	
Household goods & home construction	6,639	0.79	0.97 [a]
152,795 Energizer	6,639	0.79	
Leisure goods	0	0.00	0.00 [a]
Personal goods	23,220	2.76	3.39 [a]
225,856 Coach	9,305	1.11	
135,191 Columbia Sportswear	7,689	0.91	
50,917 Kimberly-Clark	6,226	0.74	
Tobacco	3,702	0.44	2.13
57,825 Altria Group	3,702	0.44	
Healthcare equipment & services	29,348	3.49	4.15 [a]
79,456 Anthem	15,215	1.81	
185,269 Livanova	11,311	1.34	
101,666 Owens & Minor	2,822	0.34	
Pharmaceuticals & biotechnology	102,381	12.17	11.89
265,313 Abbott Laboratories	13,292	1.58	
180,576 AbbVie	13,346	1.58	
134,547 Eli Lilly	10,827	1.29	
200,492 Johnson & Johnson	26,270	3.12	
260,777 Merck & Co.	16,458	1.96	
663,521 Pfizer	22,188	2.64	
Food & drug retailers	5,091	0.61	0.92
115,855 Weis Markets	5,091	0.61	
General retailers	15,942	1.89	2.95
54,949 Best Buy	2,976	0.35	
238,695 Target	12,966	1.54	
Media	28,842	3.43	2.89
500,576 Comcast	20,434	2.43	
422,007 Gannett	3,667	0.44	
356,745 News Corporation	4,741	0.56	
Travel & leisure	19,094	2.27	1.34
137,217 Carnival	9,403	1.12	
511,098 Extended Stay America	9,691	1.15	
Fixed line telecommunications	22,619	2.69	2.79
357,390 AT&T	13,456	1.60	
449,145 Centurylink	9,163	1.09	
Mobile telecommunications	6,066	0.72	0.00
113,774 Telephone and Data Systems	3,317	0.39	
71,814 U.S. Cellular	2,749	0.33	
Electricity	14,488	1.72	1.48
382,766 Exelon	14,488	1.72	

Portfolio statement (continued)

as at 31 August Holding	2017 \$'000	2017 %	2016 %
Banks	72,619	8.63	9.29
352,891 Capitol Federal Financial	4,820	0.57	
295,155 Citigroup	20,076	2.39	
256,594 JPMorgan Chase	23,425	2.78	
92,345 PNC Financial Services	11,612	1.38	
113,975 Washington Federal	3,545	0.42	
178,046 Wells Fargo	9,141	1.09	
Non-life insurance	24,760	2.94	3.48 [a]
185,437 American International Group	11,160	1.33	
134,610 Loews	6,274	0.74	
134,815 The Hartford Financial Services Group	7,326	0.87	
Life insurance	10,286	1.22	1.38
17,898 BrightHouse Financial	1,022	0.12	
196,888 MetLife	9,264	1.10	
Financial services	36,563	4.35	4.00
62,174 Affiliated Managers	10,818	1.29	
83,178 Bank of New York Mellon	4,355	0.52	
53,324 Goldman Sachs Group	11,860	1.41	
248,372 Voya Financial	9,530	1.13	
Software & computer services	57,944	6.89	6.96
32,419 Alphabet	30,589	3.64	
125,732 DXC Technology	10,614	1.26	
226,223 Microsoft	16,741	1.99	
Technology hardware & equipment	83,164	9.88	8.01 [a]
352,346 Cisco Systems	11,275	1.34	
162,229 Corning	4,648	0.55	
71,028 Harris	8,688	1.03	
713,213 Hewlett-Packard Enterprise	12,816	1.52	
210,341 Intel	7,339	0.87	
176,868 Mellanox Technologies	8,269	0.98	
288,957 Micron Technology	9,131	1.09	
502,650 Pitney Bowes	6,333	0.75	
75,400 Qorvo	5,513	0.66	
101,370 Western Digital	9,152	1.09	
Portfolio of investments	819,751	97.43	95.95
'AAA' rated money market funds [b]	30,845	3.67	4.01
30,845,000 Northern Trust Global Fund - US dollar	30,845	3.67	
Total portfolio (notes 2c & 2d on page 6)	850,596	101.10	99.96
Net other assets / (liabilities)	(9,266)	(1.10)	0.04
Net assets attributable to shareholders	841,330	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] 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 31 August 2017

Largest purchases	\$'000
Coca-Cola European Partners	11,863
Affiliated Managers	10,140
Johnson & Johnson	10,054
Pfizer	9,940
Target	9,934
Molson Coors Brewing	9,874
Chevron	9,095
Steel Dynamics	8,413
Voya Financial	8,286
Extended Stay America	8,269
Other purchases	275,161
Total purchases	371,029
Largest sales	\$'000
Altria Group	10,695
Best Buy	7,614
ConAgra Foods	7,047
Kimberly-Clark	6,424
Stryker	6,385
KCG	6,351
Bank of New York Mellon	6,156
Microsoft	5,027
Parker Hannifin	4,014
McDermott International	3,951
Other sales	76,194
Total sales	139,858

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

M&G North American Value Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

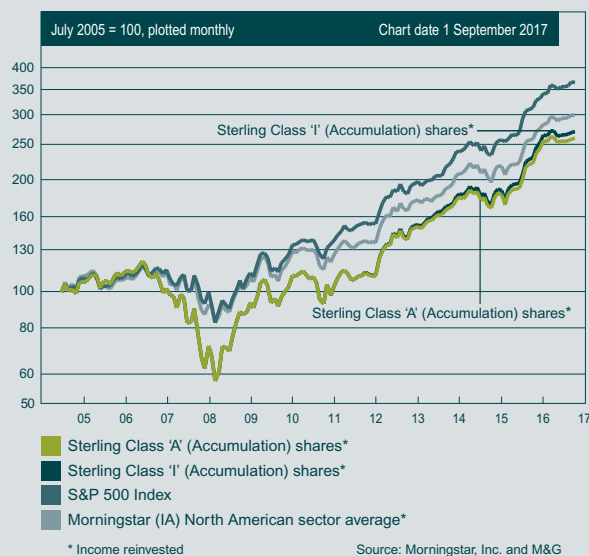
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
	2017	2016	2015
as at 31 August	\$'000	\$'000	\$'000
Fund net asset value (NAV)	841,330	531,205	511,373

Performance since launch

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

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

	One year	Three years	Five years	Since launch
	01.09.16 % [a]	01.09.14 % p.a.	03.09.12 % p.a.	% p.a.
Euro [b]				
Class 'A'	+8.3	+10.0	+14.9	+5.4 [c]
Class 'C'	+9.1	+10.8	+15.8	+6.2 [c]
Sterling [d]				
Class 'A'	+18.5	+15.7	+18.5	+8.1 [c]
Class 'I'	+19.4	+16.6	+19.4	+19.5 [e]
Class 'R'	+19.1	+16.3	+19.1	+19.2 [e]
Class 'X'	+18.5	+15.7	+18.5	+8.1 [c]
US dollar [b]				
Class 'A'	+15.7	+6.4	+13.7	+4.1 [f]
Class 'C'	+16.6	+7.2	+14.5	+4.8 [f]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 1 July 2005, the launch date of the fund.

[d] Price to price with income reinvested.

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

[f] 9 March 2007, the launch date of the share class.

M&G North American Value Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.02	0.03	0.05	0.03
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.02	0.03	0.05	0.03
Dilution adjustments ^[c]	(0.02)	(0.02)	(0.04)	(0.02)
Total direct portfolio transaction costs	0.00	0.01	0.01	0.01
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.03	0.03	0.04	0.03

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

M&G North American Value 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 1 July 2005.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,766.85	1,581.08	1,419.44
Return before operating charges and after direct portfolio transaction costs	167.11	213.13	188.53
Operating charges	(32.98)	(27.36)	(26.89)
Return after operating charges	134.13	185.77	161.64
Distributions	(4.76)	(5.32)	(4.35)
Retained distributions	4.76	5.32	4.35
Closing NAV	1,900.98	1,766.85	1,581.08

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.46	0.50	0.80
Dilution adjustments ^[a]	(0.46)	(0.33)	(0.58)
Total direct portfolio transaction costs	0.00	0.17	0.22

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+7.59	+11.75	+11.39
Historic yield	0.25	0.30	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	190,378	33,375	25,199
Closing NAV percentage of total fund NAV (%)	22.63	6.28	4.93
Number of shares	8,445,903	1,695,330	1,413,054
Highest share price (Euro ¢)	2,112.48	1,782.00	1,819.05
Lowest share price (Euro ¢)	1,705.61	1,410.00	1,329.14

Euro Class 'C' Accumulation share performance

The share class was launched on 1 July 2005.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,922.55	1,707.45	1,521.54
Return before operating charges and after direct portfolio transaction costs	181.20	231.33	201.78
Operating charges	(19.69)	(16.23)	(15.87)
Return after operating charges	161.51	215.10	185.91
Distributions	(19.99)	(19.13)	(17.90)
Retained distributions	19.99	19.13	17.90
Closing NAV	2,084.06	1,922.55	1,707.45

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.50	0.55	0.86
Dilution adjustments ^[a]	(0.50)	(0.36)	(0.63)
Total direct portfolio transaction costs	0.00	0.19	0.23

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	0.91	0.91	0.91
Return after operating charges	+8.40	+12.60	+12.22
Historic yield	0.96	0.99	1.05
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	108,331	41,167	9,681
Closing NAV percentage of total fund NAV (%)	12.88	7.75	1.89
Number of shares	4,383,771	1,921,782	502,625
Highest share price (Euro ¢)	2,307.29	1,929.00	1,958.88
Lowest share price (Euro ¢)	1,856.49	1,527.00	1,426.12

Sterling Class 'A' Income share performance

The share class was launched on 1 July 2005.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	107.43	83.33	81.35
Return before operating charges and after direct portfolio transaction costs	20.07	25.94	3.66
Operating charges	(2.01)	(1.52)	(1.45)
Return after operating charges	18.06	24.42	2.21
Distributions	(2.28)	(0.32)	(0.23)
Closing NAV	123.21	107.43	83.33

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.03	0.04
Dilution adjustments ^[a]	(0.03)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+16.81	+29.31	+2.72
Historic yield ^[c]	1.86	0.30	0.27
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information

Closing NAV (\$'000)	216,092	244,575	269,652
Closing NAV percentage of total fund NAV (%)	25.68	46.04	52.73
Number of shares	136,207,062	173,305,625	210,289,562
Highest share price (UK p)	129.77	109.10	94.58
Lowest share price (UK p)	103.86	79.71	76.39

M&G North American Value Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 July 2005.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	110.44	85.41	83.14
Return before operating charges and after direct portfolio transaction costs	20.65	26.58	3.75
Operating charges	(2.07)	(1.55)	(1.48)
Return after operating charges	18.58	25.03	2.27
Distributions	(0.32)	(0.33)	(0.24)
Retained distributions	0.32	0.33	0.24
Closing NAV	129.02	110.44	85.41

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.03	0.04
Dilution adjustments ^[a]	(0.03)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+16.82	+29.31	+2.73
Historic yield	0.25	0.30	0.28
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	2,664	2,907	4,981
Closing NAV percentage of total fund NAV (%)	0.32	0.55	0.98
Number of shares	1,603,509	2,003,966	3,790,577
Highest share price (UK p)	133.42	111.83	96.67
Lowest share price (UK p)	106.77	81.69	78.14

Sterling Class 'T' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,008.50	1,557.26	1,520.67
Return before operating charges and after direct portfolio transaction costs	376.25	487.04	68.10
Operating charges	(20.87)	(15.63)	(14.98)
Return after operating charges	355.38	471.41	53.12
Distributions	(42.82)	(20.17)	(16.53)
Closing NAV	2,321.06	2,008.50	1,557.26

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.53	0.53	0.81
Dilution adjustments ^[a]	(0.53)	(0.35)	(0.59)
Total direct portfolio transaction costs	0.00	0.18	0.22

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	0.91	0.91	0.91
Return after operating charges	+17.69	+30.27	+3.49
Historic yield ^[c]	1.85	1.01	1.06
Effect on yield of charges offset against capital	0.90	0.00	0.00

Other information

Closing NAV (\$'000)	27,612	23,155	20,057
Closing NAV percentage of total fund NAV (%)	3.28	4.36	3.92
Number of shares	923,916	877,584	836,977
Highest share price (UK p)	2,435.98	2,053.47	1,776.26
Lowest share price (UK p)	1,942.26	1,494.46	1,429.65

Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,094.58	1,607.66	1,553.47
Return before operating charges and after direct portfolio transaction costs	392.68	503.04	69.49
Operating charges	(22.01)	(16.12)	(15.30)
Return after operating charges	370.67	486.92	54.19
Distributions	(23.65)	(20.81)	(16.90)
Retained distributions	23.65	20.81	16.90
Closing NAV	2,465.25	2,094.58	1,607.66

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.55	0.54	0.83
Dilution adjustments ^[a]	(0.55)	(0.36)	(0.60)
Total direct portfolio transaction costs	0.00	0.18	0.23

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	0.91	0.91	0.91
Return after operating charges	+17.70	+30.29	+3.49
Historic yield	0.96	1.00	1.05
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	51,616	19,351	18,504
Closing NAV percentage of total fund NAV (%)	6.13	3.64	3.62
Number of shares	1,626,085	703,278	748,003
Highest share price (UK p)	2,540.45	2,120.18	1,814.49
Lowest share price (UK p)	2,025.56	1,543.02	1,460.44

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	200.78	155.69	152.01
Return before operating charges and after direct portfolio transaction costs	37.58	48.63	6.83
Operating charges	(2.64)	(1.99)	(1.90)
Return after operating charges	34.94	46.64	4.93
Distributions	(4.28)	(1.55)	(1.25)
Closing NAV	231.44	200.78	155.69

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.05	0.08
Dilution adjustments ^[a]	(0.05)	(0.03)	(0.06)
Total direct portfolio transaction costs	0.00	0.02	0.02

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.16	1.16	1.16
Return after operating charges	+17.40	+29.96	+3.24
Historic yield ^[c]	1.85	0.77	0.80
Effect on yield of charges offset against capital	1.15	0.00	0.00

Other information

Closing NAV (\$'000)	241	225	134
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.03
Number of shares	80,772	85,398	55,587
Highest share price (UK p)	243.18	204.81	177.29
Lowest share price (UK p)	194.14	149.25	142.87

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Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	207.20	159.43	154.45
Return before operating charges and after direct portfolio transaction costs	38.79	49.80	6.89
Operating charges	(2.73)	(2.03)	(1.91)
Return after operating charges	36.06	47.77	4.98
Distributions	(1.76)	(1.58)	(1.25)
Retained distributions	1.76	1.58	1.25
Closing NAV	243.26	207.20	159.43
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.05	0.08
Dilution adjustments ^[a]	(0.05)	(0.04)	(0.06)
Total direct portfolio transaction costs	0.00	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.16	1.16	1.16
Return after operating charges	+17.40	+29.96	+3.22
Historic yield	0.73	0.77	0.78
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	321	308	317
Closing NAV percentage of total fund NAV (%)	0.04	0.06	0.06
Number of shares	102,542	113,120	129,262
Highest share price (UK p)	250.97	209.75	180.12
Lowest share price (UK p)	200.36	152.85	145.16

Sterling Class 'X' Income share performance

The share class was launched on 1 July 2015.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	107.46	83.35	81.37
Return before operating charges and after direct portfolio transaction costs	20.09	25.95	3.66
Operating charges	(2.02)	(1.52)	(1.45)
Return after operating charges	18.07	24.43	2.21
Distributions	(2.28)	(0.32)	(0.23)
Closing NAV	123.25	107.46	83.35
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.03	0.04
Dilution adjustments ^[a]	(0.03)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+16.82	+29.31	+2.72
Historic yield ^[c]	1.86	0.30	0.28
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	2,740	2,494	2,627
Closing NAV percentage of total fund NAV (%)	0.33	0.47	0.51
Number of shares	1,726,740	1,766,613	2,047,433
Highest share price (UK p)	129.82	109.14	94.61
Lowest share price (UK p)	103.89	79.73	76.44

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 July 2005.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	110.66	85.58	83.31
Return before operating charges and after direct portfolio transaction costs	20.69	26.64	3.75
Operating charges	(2.08)	(1.56)	(1.48)
Return after operating charges	18.61	25.08	2.27
Distributions	(0.32)	(0.33)	(0.23)
Retained distributions	0.32	0.33	0.23
Closing NAV	129.27	110.66	85.58
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.03	0.04
Dilution adjustments ^[a]	(0.03)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+16.82	+29.31	+2.72
Historic yield	0.25	0.30	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	180,838	130,588	126,698
Closing NAV percentage of total fund NAV (%)	21.49	24.58	24.78
Number of shares	108,644,159	89,831,538	96,213,165
Highest share price (UK p)	133.68	112.05	96.86
Lowest share price (UK p)	106.98	81.86	78.25

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,315.48	1,191.70	1,250.99
Return before operating charges and after direct portfolio transaction costs	214.52	144.10	(38.48)
Operating charges	(23.76)	(20.32)	(20.81)
Return after operating charges	190.76	123.78	(59.29)
Distributions	(3.77)	(3.91)	(3.26)
Retained distributions	3.77	3.91	3.26
Closing NAV	1,506.24	1,315.48	1,191.70
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.33	0.37	0.62
Dilution adjustments ^[a]	(0.33)	(0.25)	(0.45)
Total direct portfolio transaction costs	0.00	0.12	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+14.50	+10.39	-4.74
Historic yield	0.25	0.30	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	23,437	15,389	18,518
Closing NAV percentage of total fund NAV (%)	2.79	2.90	3.62
Number of shares	1,555,966	1,169,867	1,553,928
Highest share price (US ¢)	1,526.94	1,319.00	1,298.09
Lowest share price (US ¢)	1,278.24	1,068.00	1,131.97

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Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

for the year to 31 August	2017	2016	2015
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,412.87	1,270.30	1,323.57
Return before operating charges and after direct portfolio transaction costs	231.31	154.49	(41.20)
Operating charges	(14.25)	(11.92)	(12.07)
Return after operating charges	217.06	142.57	(53.27)
Distributions	(15.64)	(14.04)	(13.33)
Retained distributions	15.64	14.04	13.33
Closing NAV	1,629.93	1,412.87	1,270.30
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.36	0.40	0.65
Dilution adjustments ^[a]	(0.36)	(0.27)	(0.48)
Total direct portfolio transaction costs	0.00	0.13	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.01
Operating charges	0.91	0.91	0.91
Return after operating charges	+15.36	+11.22	-4.02
Historic yield	0.96	0.99	0.90
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	37,060	17,671	15,005
Closing NAV percentage of total fund NAV (%)	4.40	3.33	2.93
Number of shares	2,273,737	1,250,746	1,181,194
Highest share price (US ¢)	1,651.11	1,416.00	1,333.70
Lowest share price (US ¢)	1,374.84	1,142.00	1,031.60

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

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

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

M&G North American Value Fund

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Financial statements

Statement of total return

for the year to 31 August	Note	2017		2016	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		78,709		48,913
Revenue	5	14,821		11,572	
Expenses	6	(9,705)		(7,645)	
Net revenue / (expense) before taxation		5,116		3,927	
Taxation	7	(2,111)		(1,700)	
Net revenue / (expense) after taxation			3,005		2,227
Total return before distributions			81,714		51,140
Distributions	8		(7,332)		(2,227)
Change in net assets attributable to shareholders from investment activities			74,382		48,913

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		531,205		511,373
Amounts received on issue of shares	435,991		121,283	
Amounts paid on cancellation of shares	(203,468)		(151,830)	
		232,523		(30,547)
Dilution adjustments		333		139
Change in net assets attributable to shareholders from investment activities (see above)		74,382		48,913
Retained distributions on Accumulation shares		2,887		1,327
Closing net assets attributable to shareholders		841,330		531,205

Balance sheet

as at 31 August	Note	2017 \$'000	2016 \$'000
Assets			
Fixed assets			
Investments		850,596	530,999
Current assets			
Debtors	9	7,551	933
Cash and bank balances	10	0	791
Total assets		858,147	532,723
Liabilities			
Creditors			
Bank overdrafts		(30)	0
Distribution payable		(4,566)	(979)
Other creditors	11	(12,221)	(539)
Total liabilities		(16,817)	(1,518)
Net assets attributable to shareholders		841,330	531,205

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's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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 31 August	2017 \$'000	2016 \$'000
Non-derivative securities	78,967	49,138
Currency gains / (losses)	(249)	(218)
Transaction charges	(9)	(7)
Net capital gains / (losses)	78,709	48,913

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 181.

for the year to 31 August	2017 \$'000	% of transaction	2016 \$'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	370,926		118,499	
Commissions	103	0.03	60	0.05
Total purchases after transaction costs	371,029		118,559	
b) Sales				
Equities				
Equities before transaction costs	139,905		151,086	
Commissions	(44)	0.03	(90)	0.06
Taxes	(3)	0.00	(3)	0.00
Total sales after transaction costs	139,858		150,993	
c) Direct portfolio transaction costs				
	2017 \$'000	% of average NAV	2016 \$'000	% of average NAV
Commissions paid				
Equities	147	0.02	150	0.03
Taxes paid				
Equities	3	0.00	3	0.00
Total direct portfolio transaction costs ^[a]	150	0.02	153	0.03
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[b]		0.03		0.03

^[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.

M&G North American Value Fund

Financial statements and notes

5 Revenue

	2017	2016
for the year to 31 August	\$'000	\$'000
Dividends from equity investments: non-taxable	14,536	11,500
Dividends from equity investments: taxable	72	2
Interest distributions	213	70
Total revenue	14,821	11,572

6 Expenses

	2017	2016
for the year to 31 August	\$'000	\$'000
Payable to the ACD or associate		
Annual management charge	8,642	6,845
Administration charge	982	747
	9,624	7,592
Payable to the Depositary or associate		
Depositary's charge (including VAT)	45	36
Other expenses		
Audit fee (including VAT)	11	11
Interest payable	12	1
Safe custody charge	14	10
Tax fees (including VAT)	1	1
	38	23
VAT recoverable		
Current year	0	(6)
Prior year	(2)	0
Total expenses	9,705	7,645

7 Taxation

	2017	2016
for the year to 31 August	\$'000	\$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	2,111	1,700
Deferred tax (note 7c)	0	0
Total taxation	2,111	1,700
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	5,116	3,927
Corporation tax at 20%	1,023	785
Effects of:		
Dividends from equity investments: non-taxable	(2,907)	(2,300)
Current year expenses not utilised	1,884	1,515
Withholding tax	2,111	1,700
Total tax charge (note 7a)	2,111	1,700
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 \$8,285,000 (2016: \$6,401,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

	2017		2016	
for the year to 31 August	Inc ^[a]	Acc ^[b]	Inc ^[a]	Acc ^[b]
Dividend distributions	\$'000	\$'000	\$'000	\$'000
Final	4,566	2,887	979	1,327
Total net distributions		7,453		2,306
Income deducted on cancellation of shares		1,288		250
Income received on issue of shares		(1,409)		(329)
Distributions		7,332		2,227
Net revenue / (expense) per statement of total return		3,005		2,227
Expenses offset against capital		4,327		0
Distributions		7,332		2,227

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

	2017	2016
as at 31 August	\$'000	\$'000
Amounts receivable on issues of shares	139	0
Currency deals outstanding	5,588	0
Distributions receivable	28	9
Dividends receivable	1,768	918
Withholding tax recoverable	28	6
Total debtors	7,551	933

10 Cash and bank balances

	2017	2016
as at 31 August	\$'000	\$'000
Cash held as bank balances	0	791
Total cash and bank balances	0	791

11 Other creditors

	2017	2016
as at 31 August	\$'000	\$'000
ACD's annual management charge payable	517	314
Administration charge payable	60	35
Amounts payable on cancellation of shares	6,015	173
Currency deals outstanding	5,611	0
Expenses payable	18	17
Total other creditors	12,221	539

12 Contingent assets, liabilities and outstanding commitments

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

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Notes to the financial statements

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	1,695,330	8,202,803	(1,452,230)	8,445,903
Class 'C' Accumulation	1,921,782	3,609,706	(1,147,717)	4,383,771
Sterling				
Class 'A' Income	173,305,625	9,563,108	(46,661,671)	136,207,062
Class 'A' Accumulation	2,003,966	574,638	(975,095)	1,603,509
Class 'I' Income	877,584	370,109	(323,777)	923,916
Class 'I' Accumulation	703,278	1,074,357	(151,550)	1,626,085
Class 'R' Income	85,398	10,896	(15,522)	80,772
Class 'R' Accumulation	113,120	23,701	(34,279)	102,542
Class 'X' Income	1,766,613	37,097	(76,970)	1,726,740
Class 'X' Accumulation	89,831,538	29,567,418	(10,754,797)	108,644,159
US dollar				
Class 'A' Accumulation	1,169,867	2,764,462	(2,378,363)	1,555,966
Class 'C' Accumulation	1,250,746	1,611,038	(588,047)	2,273,737

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

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

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 53.38% (2016: 28.62%) of the fund's shares.

16 Events after the balance sheet date

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

17 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets 2017 \$'000	Liabilities 2017 \$'000	Assets 2016 \$'000	Liabilities 2016 \$'000
Level 1	819,751	0	509,689	0
Level 2	30,845	0	21,310	0
Level 3	0	0	0	0
	850,596	0	530,999	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 North American Value Fund

Financial statements and notes

Notes to the financial statements

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 \$40,988,000 (2016: \$25,484,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.09.16	31.08.17	01.09.17	31.10.17

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

Euro Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	2.2407	2.5162	4.7569	5.3196

Euro Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
Final	5.6643	14.3290	19.9933	19.1268

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	1.0121	1.2692	2.2813	0.3238

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	0.2229	0.0999	0.3228	0.3299

Sterling Class 'I' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	20.9995	21.8179	42.8174	20.1676

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	11.9990	11.6510	23.6500	20.8134

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	1.7554	2.5198	4.2752	1.5453

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	0.9759	0.7837	1.7596	1.5806

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
Final	1.4925	0.7895	2.2820	0.3249

M&G North American Value Fund

Financial statements and notes

Notes to the financial statements

23 Dividend distribution tables (continued)

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	p	p	p	p
Final	0.1487	0.1748	0.3235	0.3327

US dollar Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	¢	¢	¢	¢
Final	2.8353	0.9338	3.7691	3.9144

US dollar Class 'C' Accumulation shares				
Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	2017	Distribution 2016
	¢	¢	¢	¢
Final	9.3058	6.3307	15.6365	14.0363

M&G Pan European Select Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests wholly or mainly in European (including UK) companies. The Fund may also invest in companies outside Europe but only when these companies derive the majority of their income from European activity. The objective is to maximise long term total return (the combination of income and growth of capital). The Fund may at any time be concentrated in a limited number of securities.

Investment approach

The M&G Pan European Select Fund is a concentrated portfolio of quality European companies, with advantageous characteristics, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings.

The fund manager keeps the portfolio focused, generally holding between 25 and 35 well-understood stocks, which broadly fall into one of two 'buckets' – 'stable growth' and 'opportunities'. Stable growth companies are those that have a proven track record of producing stable earnings, tending to have very strong market positions or powerful brands, for example. Opportunities companies sit in out-of-favour corners of the market where change is not appreciated or risk is overstated. These tend to be less predictable, but with significant growth potential.

Risk profile

The fund invests in the shares of companies listed in Europe, including the UK. It is, therefore, subject to the price volatility of the European and UK stockmarkets and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on quality businesses where an element of change is helping to drive their value, and these stocks could potentially experience a degree of illiquidity in times of market distress. The fund is a concentrated portfolio of between 25 and 35 holdings, but is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Diversification across countries, industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 September 2017, for the year ended 31 August 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 September 2017, the M&G Pan European Select Fund delivered positive total returns (the combination of income and growth of capital) across all of its share classes.* All share classes, however, finished behind a comparable index, the MSCI Europe Index. Over the 12 months, returns from the index were 23.2%, 13.2% and 20.2% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has met its objective of delivering positive total returns.

Investment performance

The period under review was eventful for European stockmarkets. As we started the period, investors had broadly switched their attention to elections in the US, having previously been focused on the aftermath of the UK referendum on EU membership. Markets were turbulent in the run-up to November's presidential contest, but then rose steadily following the surprise election of Donald Trump, as the potential for reduced taxes and regulation, as well as a prospective boost to spending on infrastructure, cheered US investors – this positive mood was reflected in Europe. Following a lull as we entered the new year, markets then maintained their upward trajectory for much of the period under review, with political and economic developments in Europe helping to drive sentiment on the continent.

In political terms, the tide of populism – highlighted in 2016 by the 'Brexit' decision in the UK and Donald Trump's presidency in the US – was stemmed in Europe, with elections in Holland and France failing to elect candidates from the extremes of the political spectrum; this had a positive effect on markets. Investors were also enlivened by strong business sentiment and accelerating economic activity, which helped to drive earnings. The euro's value, as well, was boosted by Emmanuel Macron's clear-cut win in the French presidential election, while strong economic data from across the region helped to extend gains. With a sharp decrease in eurozone unemployment and

M&G Pan European Select Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

business confidence surveys continuing their positive trend, Europe has appeared to be in the midst of a broad-based upturn, helping to further improve investor confidence. The currency strength, however, had ramifications for euro denominated investments – while stockmarkets continued to deliver positive returns in sterling and US dollar terms, returns in euro flattened as we moved through the end of the period under review, reflecting the euro's relative rise in value.

Against this background, the financial, materials and information technology sectors delivered strong performance, while some of the more defensive sectors (that is, those that have relatively predictable and stable earnings regardless of the state of the overall economy) lagged, including telecoms, consumer staples and healthcare, while the worst performing sector for the period under review was real estate. Energy also trailed the wider market, in light of continued weakness in the oil price. For the fund, stock selection among the industrials, consumer discretionary and financial sectors dragged on relative performance, while selection among information technology, consumer staples and healthcare companies was supportive of relative returns.

At an individual stock level, the fund's largest detractor for the period was branded jewellery creator Pandora. Having performed well for some time, the company's shares slid after it forecast slower revenue growth than anticipated, as well as squeezed margins in light of higher commodity prices. The company's slower revenue growth largely resulted from its operations in the US, where the retail environment has been particularly challenging. As we neared the end of the review period, though, Pandora reported an increase in US like-for-like sales, driven by more effective advertising and promotions.

German food processing technology and component maker GEA dragged on returns as well. GEA's share price rapidly declined near the start of the period under review when the company confounded investors by reducing its guidance for the year, having already earlier confirmed a positive outlook. Its share price then moved generally sideways for the remainder of the period.

Other laggards included, 'fast fashion' retailer H&M and multinational pharmaceutical business GlaxoSmithKline. H&M reported a drop in net profits, largely due to higher purchasing costs from a strengthening US dollar. It also had to discount some of its lines in light of lower-than-expected sales, amid difficult conditions for retailers. Glaxo, meanwhile, reported revenues that were marginally behind expectations, while also lowering its earnings growth estimates for the year. This followed the company's new chief executive announcing that Glaxo would narrow the focus of its drug research, by ceasing a number of projects, to improve returns in its core pharmaceutical markets.

Elsewhere, building supplies retailer Travis Perkins also weighed on performance. The company's share price fell sharply following the UK's 'Brexit' decision in June 2016, and subsequently remained depressed. In April, though, it reported a rise in total sales, driven by a raft of price rises at its stores, which had been brought in to offset higher costs resulting from a weaker, post-Brexit, pound; investors were pleased with the results. However, sentiment in the company was subsequently dented amid a perceived slowing property market and decreased consumer spending power in light of rising inflation,

and share price gains were reversed. We took the decision to close our position in the company (please see the 'Investment activities' section of this report for further details).

On the upside, one of the fund's largest contributors was Dutch financial institution ING, which benefited from positive sentiment in the European financial sector, buoyed by the potential for rising interest rates. The company has also delivered ongoing operational success, including good retail expansion into online banking, and this has pleased investors. Also within financials, Italian global banking and financial services company UniCredit and Danish insurer Topdanmark delivered strong performance as well.

Other supportive holdings included Danish transport and logistics company DSV and Anglo-Dutch consumer goods giant Unilever. DSV reported very strong results, with each of its divisions – Air & Sea, Road, and Solutions – significantly outpacing market growth. The positive developments were largely the result of the continued successful integration of US-based freight forwarding business UTI, acquired by DSV in January 2016. Unilever, meanwhile, was a new holding during the review period, its shares having been suppressed for some time (as investors rotated away from 'defensive' companies), thus providing us with the investment opportunity. Unilever's share price subsequently rose sharply on news that competitor Kraft Heinz was seeking a £115 billion bid for the company. Unilever rejected the bid, while upgrading its profit margin expectations for the year, and announcing a "comprehensive review of options" to improve value for shareholders; its share price then continued to rise following the news.

Also related to corporate activity, paints and coatings business Akzo Nobel (also a new holding) received, and subsequently rejected, three offers from US competitor PPG to acquire the company (following the first offer, Akzo's shares rose sharply). After rejecting the initial bid, Akzo said it was considering spinning off its speciality chemicals business, launching a "review of strategic options for the separation" of the unit. In June PPG dropped its bid for the company.

Investment activities

We run a concentrated portfolio of between 25 and 35 holdings, maintaining a watchlist of around 120 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well-protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues, or 'disruptions', to create buying opportunities.

During the review period, six such opportunities presented themselves. The first was the aforementioned Topdanmark, Denmark's second-largest insurance company. We see this as a high-quality business where short-term pricing pressure in Denmark created the opportunity to buy the stock at an attractive valuation.

We added a position in Linde, the world's second-largest supplier of industrial gases. The company is engaged in highly visible long-term projects in captive markets, generates a lot of cash and is very profitable.

As mentioned above, we bought shares in Akzo Nobel, a Dutch-listed manufacturer of decorative paints, performance coatings and speciality chemicals. We believe this is a quality company with a strong brand, excellent distribution networks and, as the largest coating and paint company globally, scale advantages that make it difficult to compete with.

M&G Pan European Select Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

Also mentioned above, we added a position in Unilever, a high-quality producer of household and beauty products, as well as food and beverages. Unilever is very long term, making strategic acquisitions over time to grow and diversify its business, and is stakeholder, not just shareholder, focused.

We invested in UK-listed pet specialist Pets at Home. Founded in 1991, the company is the largest pet specialist in the UK, particularly in terms of non-food products and Advanced Nutrition. It is also increasingly focused on high levels of service, including veterinary practices and grooming, to strengthen its customer base. The company's shares sold off alongside others in the UK retail space, while attention placed on competitor e-commerce removed focus from the business's service offering; this provided the disruption that allowed us to purchase the company's shares at an attractive valuation.

Finally, we bought shares in Ireland's largest lender, Allied Irish Bank. The Irish government owned 99.9% of the bank, and 25% was returned to the market in June. We feel the bank is now well capitalised, that non-performing loans have come down substantially and that the prospects for capital release are real, especially if the Irish economy continues on its recent healthy trajectory.

In terms of positions closed, we exited six of the fund's holdings during the period. Danish medical equipment maker Ambu and German sportswear manufacturer Adidas both left the portfolio on valuation grounds. We closed the position in UK-listed banking group Barclays, as uncertainty in the medium-term housing market raised some concerns, as Barclays has been aggressively building its mortgage book. We exited cigarette maker British American Tobacco, in light of tougher regulations, new technologies – including 'vaping' – leading to increased competition and uncertainty, and a belief that tobacco companies were increasingly unlikely to produce the same level returns as they have in the past. We funded the purchase of Pets at Home by closing the position in building supplies retailer Travis Perkins. We did not want to increase the fund's overall UK retail holdings, and Travis had a similar valuation to Pets at Home but, in our view, with higher risk to the business. Finally, we sold our shares in multinational publishing and education business Pearson, having lost faith in the investment case.

Outlook

In recent months we have seen certain investment 'styles' outperforming the wider market; namely 'growth', particularly in the technology sector, and 'momentum', where investors focus in the short term on outperforming stocks. We think that this style performance has been exacerbated by machine trading, with algorithms making investment 'decisions' based on price movements, without regard for company fundamentals – we do not believe that this is the basis for long-term wealth creation. Again, we invest in quality companies that we believe have sustainable business models, and we invest in these companies for the long term.

We continue to carry out fundamental research on the companies within our watchlist – those stocks we would like to own when the timing and price is right – and have stayed vigilant of disruptions to their share prices that could result in attractive buying opportunities.

Despite the valuations in some areas of the market looking somewhat stretched, we think that our new purchases for the period under review demonstrate that, with hard work, there is still value to be found. We will continue to stay disciplined, and focus on trying to create sustainable wealth for our customers.

In terms of the current portfolio, we remain confident in the quality of our holdings and think that, as the market increasingly focuses on fundamentals, the embedded value within the fund will be further realised. As long-term investors, our focus is on the ability of our holdings to generate long-term value for the fund, and we continue to be optimistic about their prospects.

John William Olsen Fund manager

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

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

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

Investments

Portfolio statement

as at 31 August	2017	2017	2016
Holding	€'000	%	%
Oil & gas producers	12,525	3.65	3.38
799,185 Statoil	12,525	3.65	
Chemicals	26,310	7.66	3.73
108,055 Akzo Nobel	8,307	2.41	
44,815 Bayer	4,827	1.41	
81,488 Linde	13,176	3.84	
Construction & materials	10,583	3.08	2.53
214,509 LafargeHolcim (Regd.)	10,583	3.08	
General industrials	6,055	1.76	3.19
163,704 GEA Group	6,055	1.76	
Electronic & electrical equipment	10,767	3.14	2.91
158,970 Schneider Electric	10,767	3.14	
Industrial engineering	11,328	3.30	3.37
320,078 Jungheinrich Pref. (non-voting)	11,328	3.30	
Industrial transportation	17,623	5.13	5.02
296,974 DSV	17,623	5.13	
Support services	24,833	7.23	9.55
313,589 Amadeus IT Holdings	16,213	4.72	
232,885 CTS EVENTIM	8,620	2.51	
Automobiles & parts	5,661	1.65	2.29
73,058 Bayerische Motoren Werke	5,661	1.65	
Food producers	26,830	7.81	5.81
216,075 Nestlé (Regd.)	15,409	4.49	
228,673 Unilever CVA	11,421	3.32	
Household goods & home construction	8,431	2.45	2.60
106,237 Reckitt Benckiser	8,431	2.45	
Personal goods	12,773	3.72	7.17
88,051 HUGO BOSS	6,281	1.83	
73,669 Pandora	6,492	1.89	

M&G Pan European Select Fund

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Investments

Portfolio statement (continued)			
as at 31 August	2017	2017	2016
Holding	€'000	%	%
Tobacco	0	0.00	3.40
Healthcare equipment & services	9,352	2.72	4.82
119,570 Fresenius Medical Care	9,352	2.72	
Pharmaceuticals & biotechnology	44,339	12.91	11.21
650,139 GlaxoSmithKline	10,798	3.14	
3,145,027 Indivior	14,187	4.13	
485,538 Novo-Nordisk	19,354	5.64	
General retailers	33,166	9.66	6.10
270,447 Hennes & Mauritz	5,725	1.67	
4,584,838 Pets at home	8,957	2.61	
923,624 WH Smith	18,484	5.38	
Media	0	0.00	2.63
Banks	35,655	10.38	9.88
1,768,580 Allied Irish Banks	8,866	2.58	
996,185 ING Groep	14,838	4.32	
564,867 Standard Chartered	4,757	1.39	
418,016 UniCredit	7,194	2.09	
Non-life insurance	16,637	4.84	3.52
616,445 Hiscox	8,588	2.50	
245,886 Topdanmark	8,049	2.34	
Software & computer services	17,313	5.04	5.09
196,766 SAP	17,313	5.04	
Portfolio of investments	330,181	96.13	98.20
'AAA' rated money market funds ^[a]	12,697	3.70	2.33
11,693,000 Northern Trust Global Fund - Sterling	12,697	3.70	
Total portfolio (notes 2c & 2d on page 6)	342,878	99.83	100.53
Net other assets / (liabilities)	576	0.17	(0.53)
Net assets attributable to shareholders	343,454	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.

Top ten portfolio transactions

for the year to 31 August 2017

	€'000
Largest purchases	
Linde	12,455
Novo-Nordisk	10,835
WH Smith	10,378
Unilever CVA	9,071
Pets at home	8,726
Akzo Nobel	8,438
ING Groep	6,893
Allied Irish Banks	6,710
SAP	6,531
Topdanmark	6,288
Other purchases	90,000
Total purchases	176,325
Largest sales	
Travis Perkins	7,450
British American Tobacco	6,729
adidas	6,301
Svenska Handelsbanken	6,138
Pearson	4,714
Bayer	3,769
Hiscox	3,170
Barclays	2,994
UniCredit	2,814
Ambu	2,634
Other sales	13,670
Total sales	60,383

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

M&G Pan European Select Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

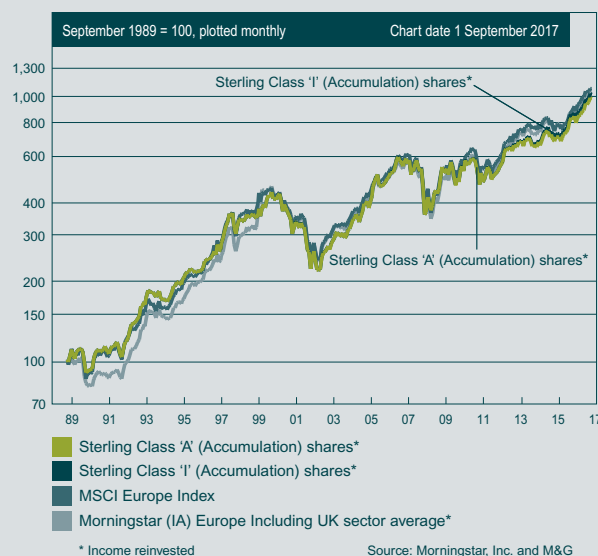
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 31 August	2017 €'000	2016 €'000	2015 €'000
Fund net asset value (NAV)	343,454	191,928	245,560

Performance since launch

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Pan European Select Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 01.09.16 % ^[a]	Three years 01.09.14 % p.a.	Five years 03.09.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+8.2	+8.7	+10.3	+4.3 ^[c]
Class 'B'	+7.6	n/a	n/a	+10.3 ^[d]
Class 'C'	+9.0	+9.5	+11.1	+5.1 ^[c]
Sterling ^[e]				
Class 'A'	+18.4	+14.4	+13.7	+8.4 ^[f]
Class 'I'	+19.3	+15.2	+14.6	+14.6 ^[g]
Class 'R'	+19.0	+14.9	+14.3	+14.3 ^[g]
Class 'X'	+18.4	+14.4	+13.7	+13.1 ^[h]
US dollar ^[b]				
Class 'A'	+15.6	+5.2	n/a	+6.1 ^[i]
Class 'C'	+16.4	+6.0	n/a	+6.9 ^[i]

^[a] Absolute basis.

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

^[c] 28 November 2001, the launch date of the share class.

^[d] 18 March 2016, the launch date of the share class.

^[e] Price to price with income reinvested.

^[f] 29 September 1989, the end of the initial offer period of the predecessor unit trust.

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

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

^[i] 8 August 2014, 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.

M&G Pan European Select Fund

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Fund performance

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 31 August	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.04	0.08	0.01	0.04
Taxes	0.08	0.01	0.01	0.03
Costs before dilution adjustments	0.12	0.09	0.02	0.07
Dilution adjustments ^[c]	(0.10)	(0.03)	(0.02)	(0.05)
Total direct portfolio transaction costs	0.02	0.06	0.00	0.02
as at 31 August	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.05	0.06	0.09	0.07

^[a] Average of first three columns.

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

^[c] In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

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 28 November 2001.

for the year to 31 August	2017	2016	2015
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,791.43	1,712.31	1,517.49
Return before operating charges and after direct portfolio transaction costs	202.01	107.86	223.29
Operating charges	(31.95)	(28.74)	(28.47)
Return after operating charges	170.06	79.12	194.82
Distributions	(13.71)	(45.62)	(44.57)
Retained distributions	13.71	45.62	44.57
Closing NAV	1,961.49	1,791.43	1,712.31
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.34	1.54	0.38
Dilution adjustments ^[a]	(1.83)	(0.55)	(0.28)
Total direct portfolio transaction costs	0.51	0.99	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+9.49	+4.62	+12.84
Historic yield	0.70	2.49	2.62
Effect on yield of charges offset against capital	0.00	1.50	1.50

Other information

Closing NAV (€'000)	121,387	13,136	11,571
Closing NAV percentage of total fund NAV (%)	35.35	6.85	4.71
Number of shares	6,188,518	733,275	675,770
Highest share price (Euro ¢)	1,999.46	1,848.75	1,927.64
Lowest share price (Euro ¢)	1,668.64	1,488.66	1,375.48

M&G Pan European Select Fund

Financial highlights

Specific share class performance

Euro Class 'B' Accumulation share performance

The share class was launched on 18 March 2016.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,064.43	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	118.94	74.39	n/a
Operating charges	(23.67)	(9.96)	n/a
Return after operating charges	95.27	64.43	n/a
Distributions	(2.88)	(19.30)	n/a
Retained distributions	2.88	19.30	n/a
Closing NAV	1,159.70	1,064.43	n/a
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.33	0.42	n/a
Dilution adjustments ^[a]	(1.04)	(0.15)	n/a
Total direct portfolio transaction costs	0.29	0.27	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	n/a
Operating charges	2.17	2.17	n/a
Return after operating charges	+8.95	+6.44	n/a
Historic yield	0.25	2.48	n/a
Effect on yield of charges offset against capital	0.00	2.00	n/a
Other information			
Closing NAV (€'000)	57	32	n/a
Closing NAV percentage of total fund NAV (%)	0.02	0.02	n/a
Number of shares	4,880	3,000	n/a
Highest share price (Euro ¢)	1,183.59	1,072.77	n/a
Lowest share price (Euro ¢)	990.59	952.42	n/a

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

for the year to 31 August Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	2,007.15	1,904.11	1,674.82
Return before operating charges and after direct portfolio transaction costs	226.13	120.71	246.84
Operating charges	(19.05)	(17.67)	(17.55)
Return after operating charges	207.08	103.04	229.29
Distributions	(31.69)	(50.91)	(49.48)
Retained distributions	31.69	50.91	49.48
Closing NAV	2,214.23	2,007.15	1,904.11
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.53	1.72	0.42
Dilution adjustments ^[a]	(1.97)	(0.62)	(0.32)
Total direct portfolio transaction costs	0.56	1.10	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+10.32	+5.41	+13.69
Historic yield	1.44	2.48	2.62
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (€'000)	23,764	20,558	18,606
Closing NAV percentage of total fund NAV (%)	6.92	10.71	7.58
Number of shares	1,073,257	1,024,259	977,156
Highest share price (Euro ¢)	2,252.92	2,059.82	2,139.95
Lowest share price (Euro ¢)	1,872.08	1,661.02	1,519.50

Sterling Class 'A' Income share performance

The share class was launched on 29 September 1989.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	191.32	162.23	160.04
Return before operating charges and after direct portfolio transaction costs	39.39	36.89	9.33
Operating charges	(3.38)	(2.86)	(2.82)
Return after operating charges	36.01	34.03	6.51
Distributions	(5.07)	(4.94)	(4.32)
Closing NAV	222.26	191.32	162.23
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.25	0.15	0.04
Dilution adjustments ^[a]	(0.19)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.06	0.10	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+18.82	+20.98	+4.07
Historic yield ^[c]	2.30	2.54	2.68
Effect on yield of charges offset against capital	1.65	1.50	1.50
Other information			
Closing NAV (€'000)	86,655	86,393	146,674
Closing NAV percentage of total fund NAV (%)	25.23	45.01	59.73
Number of shares	35,903,665	38,299,702	66,272,804
Highest share price (UK p)	227.97	200.74	183.01
Lowest share price (UK p)	178.92	151.29	145.51

Sterling Class 'A' Accumulation share performance

The share class was launched on 29 September 1989.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	386.16	318.98	306.54
Return before operating charges and after direct portfolio transaction costs	79.74	72.81	17.85
Operating charges	(6.84)	(5.63)	(5.41)
Return after operating charges	72.90	67.18	12.44
Distributions	(3.29)	(9.75)	(8.30)
Retained distributions	3.29	9.75	8.30
Closing NAV	459.06	386.16	318.98
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.50	0.30	0.07
Dilution adjustments ^[a]	(0.39)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.11	0.19	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+18.88	+21.06	+4.06
Historic yield	0.72	2.48	2.62
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (€'000)	63,483	52,537	56,320
Closing NAV percentage of total fund NAV (%)	18.48	27.37	22.93
Number of shares	12,735,111	11,539,174	12,941,886
Highest share price (UK p)	462.20	395.95	352.05
Lowest share price (UK p)	361.08	297.54	278.69

M&G Pan European Select Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,494.22	1,257.43	1,230.22
Return before operating charges and after direct portfolio transaction costs	309.25	287.53	72.91
Operating charges	(14.64)	(12.27)	(12.27)
Return after operating charges	294.61	275.26	60.64
Distributions	(39.83)	(38.47)	(33.43)
Closing NAV	1,749.00	1,494.22	1,257.43

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.94	1.20	0.30
Dilution adjustments ^[a]	(1.51)	(0.43)	(0.22)
Total direct portfolio transaction costs	0.43	0.77	0.08

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+19.72	+21.89	+4.93
Historic yield ^[c]	2.29	2.53	2.67
Effect on yield of charges offset against capital	0.90	0.75	0.75

Other information

Closing NAV (€'000)	11,861	10,434	6,375
Closing NAV percentage of total fund NAV (%)	3.45	5.44	2.60
Number of shares	624,535	592,296	371,647
Highest share price (UK p)	1,793.53	1,567.15	1,414.41
Lowest share price (UK p)	1,399.96	1,176.61	1,120.36

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,680.78	1,377.97	1,314.27
Return before operating charges and after direct portfolio transaction costs	348.92	316.27	76.77
Operating charges	(16.51)	(13.46)	(13.07)
Return after operating charges	332.41	302.81	63.70
Distributions	(28.55)	(42.29)	(35.79)
Retained distributions	28.55	42.29	35.79
Closing NAV	2,013.19	1,680.78	1,377.97

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.19	1.31	0.32
Dilution adjustments ^[a]	(1.71)	(0.47)	(0.24)
Total direct portfolio transaction costs	0.48	0.84	0.08

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+19.78	+21.98	+4.85
Historic yield	1.43	2.48	2.61
Effect on yield of charges offset against capital	0.00	0.75	0.75

Other information

Closing NAV (€'000)	8,393	6,125	3,116
Closing NAV percentage of total fund NAV (%)	2.44	3.19	1.27
Number of shares	383,917	309,100	165,777
Highest share price (UK p)	2,026.56	1,722.82	1,516.40
Lowest share price (UK p)	1,574.61	1,289.70	1,196.00

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	147.60	124.52	122.37
Return before operating charges and after direct portfolio transaction costs	30.50	28.43	6.96
Operating charges	(1.84)	(1.54)	(1.51)
Return after operating charges	28.66	26.89	5.45
Distributions	(3.93)	(3.81)	(3.30)
Closing NAV	172.33	147.60	124.52

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.12	0.03
Dilution adjustments ^[a]	(0.15)	(0.04)	(0.02)
Total direct portfolio transaction costs	0.04	0.08	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.18	1.18	1.18
Return after operating charges	+19.42	+21.59	+4.45
Historic yield ^[c]	2.29	2.54	2.67
Effect on yield of charges offset against capital	1.15	1.00	1.00

Other information

Closing NAV (€'000)	238	161	156
Closing NAV percentage of total fund NAV (%)	0.07	0.08	0.06
Number of shares	126,927	92,645	91,534
Highest share price (UK p)	176.72	154.82	140.20
Lowest share price (UK p)	138.20	116.39	111.18

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	166.24	136.63	130.65
Return before operating charges and after direct portfolio transaction costs	34.41	31.30	7.60
Operating charges	(2.03)	(1.69)	(1.62)
Return after operating charges	32.38	29.61	5.98
Distributions	(2.36)	(4.20)	(3.55)
Retained distributions	2.36	4.20	3.55
Closing NAV	198.62	166.24	136.63

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.21	0.13	0.03
Dilution adjustments ^[a]	(0.17)	(0.05)	(0.02)
Total direct portfolio transaction costs	0.04	0.08	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.18	1.17	1.18
Return after operating charges	+19.48	+21.67	+4.58
Historic yield	1.19	2.49	2.61
Effect on yield of charges offset against capital	0.00	1.00	1.00

Other information

Closing NAV (€'000)	69	126	131
Closing NAV percentage of total fund NAV (%)	0.02	0.07	0.05
Number of shares	32,120	64,120	70,075
Highest share price (UK p)	199.95	170.42	150.51
Lowest share price (UK p)	155.64	127.73	118.86

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Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	189.24	160.46	158.31
Return before operating charges and after direct portfolio transaction costs	38.96	36.50	9.22
Operating charges	(3.34)	(2.83)	(2.80)
Return after operating charges	35.62	33.67	6.42
Distributions	(5.02)	(4.89)	(4.27)
Closing NAV	219.84	189.24	160.46
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.24	0.15	0.04
Dilution adjustments ^[a]	(0.19)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.05	0.10	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+18.82	+20.98	+4.06
Historic yield ^[c]	2.30	2.54	2.67
Effect on yield of charges offset against capital	1.65	1.50	1.50
Other information			
Closing NAV (€'000)	1,396	1,401	1,617
Closing NAV percentage of total fund NAV (%)	0.41	0.73	0.66
Number of shares	584,780	627,780	738,548
Highest share price (UK p)	225.48	198.55	181.01
Lowest share price (UK p)	176.96	149.64	143.92

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 August Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	381.62	315.23	302.93
Return before operating charges and after direct portfolio transaction costs	78.80	71.95	17.63
Operating charges	(6.75)	(5.56)	(5.33)
Return after operating charges	72.05	66.39	12.30
Distributions	(3.25)	(9.63)	(8.19)
Retained distributions	3.25	9.63	8.19
Closing NAV	453.67	381.62	315.23
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.49	0.30	0.07
Dilution adjustments ^[a]	(0.39)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.10	0.19	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+18.88	+21.06	+4.06
Historic yield	0.72	2.48	2.61
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (€'000)	928	886	946
Closing NAV percentage of total fund NAV (%)	0.27	0.46	0.39
Number of shares	188,287	196,909	219,896
Highest share price (UK p)	456.77	391.29	347.90
Lowest share price (UK p)	356.83	294.03	275.42

US dollar Class 'A' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 31 August Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,030.40	996.97	1,032.83
Return before operating charges and after direct portfolio transaction costs	187.41	49.81	(18.24)
Operating charges	(17.13)	(16.38)	(17.62)
Return after operating charges	170.28	33.43	(35.86)
Distributions	(9.26)	(26.15)	(25.84)
Retained distributions	9.26	26.15	25.84
Closing NAV	1,200.68	1,030.40	996.97
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.26	0.88	0.23
Dilution adjustments ^[a]	(0.98)	(0.32)	(0.17)
Total direct portfolio transaction costs	0.28	0.56	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	1.68	1.67	1.66
Return after operating charges	+16.53	+3.35	-3.47
Historic yield	0.77	2.48	2.62
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (€'000)	350	134	44
Closing NAV percentage of total fund NAV (%)	0.10	0.07	0.02
Number of shares	34,537	14,465	5,000
Highest share price (US ¢)	1,209.66	1,051.19	1,106.29
Lowest share price (US ¢)	925.60	871.33	904.68

M&G Pan European Select Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 31 August	2017	2016	2015
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,046.67	1,005.13	1,033.31
Return before operating charges and after direct portfolio transaction costs	192.46	50.54	(19.23)
Operating charges	(10.19)	(9.00)	(8.95)
Return after operating charges	182.27	41.54	(28.18)
Distributions	(17.41)	(26.55)	(26.44)
Retained distributions	17.41	26.55	26.44
Closing NAV	1,228.94	1,046.67	1,005.13
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.35	0.94	0.20
Dilution adjustments ^[a]	(1.05)	(0.34)	(0.15)
Total direct portfolio transaction costs	0.30	0.60	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.06	0.00
Operating charges	0.93	0.91	0.88
Return after operating charges	+17.41	+4.13	-2.73
Historic yield	1.42	2.48	2.66
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (€'000)	24,873	5	4
Closing NAV percentage of total fund NAV (%)	7.24	0.00	0.00
Number of shares	2,399,906	500	500
Highest share price (US ¢)	1,237.37	1,067.64	1,112.94
Lowest share price (US ¢)	941.99	881.41	905.98

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

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

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

M&G Pan European Select Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 August	Note	2017		2016	
		€'000	€'000	€'000	€'000
Income					
Net capital gains / (losses)	3		24,510		7,175
Revenue	5	7,493		5,525	
Expenses	6	(4,081)		(2,901)	
Net revenue / (expense) before taxation		3,412		2,624	
Taxation	7	(504)		(284)	
Net revenue / (expense) after taxation			2,908		2,340
Total return before distributions			27,418		9,515
Distributions	8		(4,460)		(4,914)
Change in net assets attributable to shareholders from investment activities			22,958		4,601

Statement of change in net assets attributable to shareholders

for the year to 31 August	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		191,928		245,560
Amounts received on issue of shares	162,112		20,364	
Amounts paid on cancellation of shares	(36,017)		(81,063)	
		126,095		(60,699)
Dilution adjustments		332		83
Change in net assets attributable to shareholders from investment activities (see above)		22,958		4,601
Retained distributions on Accumulation shares		2,116		2,371
Unclaimed distributions		25		12
Closing net assets attributable to shareholders		343,454		191,928

Balance sheet

as at 31 August	Note	2017 €'000	2016 €'000
Assets			
Fixed assets			
Investments		342,878	192,952
Current assets			
Debtors	9	3,050	1,411
Cash and bank balances	10	998	0
Total assets		346,926	194,363
Creditors			
Distribution payable		(1,875)	(2,291)
Other creditors	11	(1,597)	(144)
Total liabilities		(3,472)	(2,435)
Net assets attributable to shareholders		343,454	191,928

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's functional and presentational currency is euros as this better reflects the currency of its primary economic environment.

2 Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for reinvestment to Accumulation shares, the annual management charge is no longer offset against capital, reducing the amount available for reinvestment. For Income shares, in addition to the annual management charge, the administration charge is now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

3 Net capital gains / (losses)

for the year to 31 August	2017 €'000	2016 €'000
Non-derivative securities	24,856	7,259
Currency gains / (losses)	(338)	(80)
Transaction charges	(8)	(4)
Net capital gains / (losses)	24,510	7,175

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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 pages 196 and 197.

for the year to 31 August	2017 €'000	% of transaction	2016 €'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	171,025		26,039	
Commissions	66	0.04	32	0.12
Taxes	214	0.13	13	0.05
Equities after transaction costs	171,305		26,084	
Debt securities ^[a]	0		20,460	
Other transaction types				
Corporate actions	5,020		520	
Total purchases after transaction costs	176,325		47,064	
b) Sales				
Equities				
Equities before transaction costs	57,614		88,006	
Commissions	(44)	0.08	(124)	0.14
Equities after transaction costs	57,570		87,882	
Debt securities ^[a]	0		20,458	
Other transaction types				
Corporate actions	2,813		0	
Total sales after transaction costs	60,383		108,340	
c) Direct portfolio transaction costs				
	2017 €'000	% of average NAV	2016 €'000	% of average NAV
Commissions paid				
Equities	110	0.04	156	0.08
Taxes paid				
Equities	214	0.08	13	0.01
Total direct portfolio transaction costs ^[b]	324	0.12	169	0.09
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread ^[c]		0.05		0.06

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

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

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

5 Revenue

for the year to 31 August	2017 €'000	2016 €'000
Bank interest	1	1
Dividends from equity investments: non-taxable	6,221	5,185
Dividends from equity investments: taxable	412	132
Interest distributions	17	19
Interest on debt securities	0	(1)
Interest on withholding tax previously withheld at source	14	2
Stock dividends	828	187
Total revenue	7,493	5,525

6 Expenses

for the year to 31 August	2017 €'000	2016 €'000
for the year to 31 August		
Payable to the ACD or associate		
Annual management charge	3,616	2,574
Administration charge	396	282
	4,012	2,856
Payable to the Depositary or associate		
Depositary's charge (including VAT)	21	17
Other expenses		
Audit fee (including VAT)	9	10
Interest payable	10	0
Legal fees	0	1
Safe custody charge	29	17
	48	28
Total expenses	4,081	2,901

7 Taxation

for the year to 31 August	2017 €'000	2016 €'000
for the year to 31 August		
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	504	284
Deferred tax (note 7c)	0	0
Total taxation	504	284
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	3,412	2,624
Corporation tax at 20%	682	525
Effects of:		
Dividends from equity investments: non-taxable	(1,244)	(1,037)
Stock dividends not taxable	(166)	(37)
Current year expenses not utilised	728	548
Withholding tax	504	284
Prior year adjustment to expenses not utilised	0	1
Total tax charge (note 7a)	504	284
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 €6,151,000 (2016: €5,423,000) 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 31 August	2017		2016	
	Inc ^[a] €'000	Acc ^[b] €'000	Inc ^[a] €'000	Acc ^[b] €'000
Dividend distributions				
Interim	459	16	279	243
Final	1,875	2,100	2,291	2,128
Total net distributions		4,450		4,941
Income deducted on cancellation of shares		74		173
Income received on issue of shares		(64)		(200)
Distributions		4,460		4,914
Net revenue per statement of total return		2,908		2,340
Expenses offset against capital		1,552		2,574
Distributions		4,460		4,914

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

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9 Debtors

as at 31 August	2017 €'000	2016 €'000
Amounts receivable on issues of shares	1,375	0
Currency deals outstanding	77	0
Distributions receivable	2	2
Dividends receivable	503	467
Withholding tax recoverable	1,093	942
Total debtors	3,050	1,411

10 Cash and bank balances

as at 31 August	2017 €'000	2016 €'000
Cash held as bank balances	998	0
Total cash and bank balances	998	0

11 Other creditors

as at 31 August	2017 €'000	2016 €'000
ACD's annual management charge payable	218	114
Administration charge payable	24	13
Amounts payable on cancellation of shares	1,260	0
Currency deals outstanding	77	0
Expenses payable	18	17
Total other creditors	1,597	144

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.09.16	Movements		Closing 31.08.17
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	733,275	5,907,539	(452,296)	6,188,518
Class 'B' Accumulation	3,000	10,110	(8,230)	4,880
Class 'C' Accumulation	1,024,259	656,243	(607,245)	1,073,257
Sterling				
Class 'A' Income	38,299,702	480,353	(2,876,390)	35,903,665
Class 'A' Accumulation	11,539,174	2,602,616	(1,406,679)	12,735,111
Class 'I' Income	592,296	69,074	(36,835)	624,535
Class 'I' Accumulation	309,100	109,861	(35,044)	383,917
Class 'R' Income	92,645	48,000	(13,718)	126,927
Class 'R' Accumulation	64,120	0	(32,000)	32,120
Class 'X' Income	627,780	5,913	(48,913)	584,780
Class 'X' Accumulation	196,909	0	(8,622)	188,287
US dollar				
Class 'A' Accumulation	14,465	100,254	(80,182)	34,537
Class 'C' Accumulation	500	2,437,502	(38,096)	2,399,906

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 'B'	1.25	n/a	2.00
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'I'	1.00 ^[a]	n/a	0.75
Class 'R'	1.00 ^[a]	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50
US dollar			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

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

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 9.66% (2016: 0.00%) 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 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: Unadjusted quoted price in an active market for an identical instrument

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 technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 August Basis of valuation	Assets 2017 €'000	Liabilities 2017 €'000	Assets 2016 €'000	Liabilities 2016 €'000
Level 1	330,181	0	188,479	0
Level 2	12,697	0	4,473	0
Level 3	0	0	0	0
	342,878	0	192,952	0

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 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 €16,509,000 (2016: €9,424,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by €17,173,000 (2016: €9,596,000). A five per cent decrease would have an equal and opposite effect.

as at 31 August	2017 €'000	2016 €'000
Currency exposure in respect of the fund		
Danish krone	51,663	24,369
Euro	160,628	77,139
Norwegian krone	12,580	6,545
Sterling	85,124	58,797
Swedish krona	5,725	8,670
Swiss franc	26,308	16,320
US dollar	1,426	88
Total	343,454	191,928

21 Interest rate risk sensitivity and exposure

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

22 Credit risk exposure

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

23 Dividend distribution tables

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

Semi-annual distribution periods					
	Start	End	Xd	Payment	
Interim	01.09.16	28.02.17	01.03.17	30.04.17	
Final	01.03.17	31.08.17	01.09.17	31.10.17	

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

Group 1 shares are those purchased prior to a distribution period and therefore their income 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 income and equalisation. Equalisation is the average amount of income 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 income and equalisation components.

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23 Dividend distribution tables (continued)

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	€	€	€	€
Interim	0.0000	0.0000	0.0000	4.7821
Final	1.4018	12.3043	13.7061	40.8413

Euro Class 'B' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	€	€	€	€
Interim	0.0000	0.0000	0.0000	n/a
Final	0.0000	2.8767	2.8767	19.3006

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	€	€	€	€
Interim	1.1709	0.0000	1.1709	5.3346
Final	25.7035	4.8115	30.5150	45.5749

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	0.6378	0.2733	0.9111	0.4836
Final	1.9067	2.2567	4.1634	4.4568

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	0.0000	0.0000	0.0000	0.9555
Final	0.4465	2.8477	3.2942	8.7895

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	4.4093	2.7275	7.1368	3.7837
Final	11.7452	20.9436	32.6888	34.6840

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	0.7656	0.0443	0.8099	4.1541
Final	3.8400	23.8994	27.7394	38.1351

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	0.6229	0.0817	0.7046	0.3741
Final	2.1054	1.1179	3.2233	3.4321

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	0.0000	0.0000	0.0000	0.4101
Final	2.3574	0.0000	2.3574	3.7914

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	0.6350	0.2654	0.9004	0.4808
Final	1.6908	2.4271	4.1179	4.4112

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	p	p	p	p
Interim	0.0000	0.0000	0.0000	0.9440
Final	1.7486	1.5056	3.2542	8.6845

US dollar Class 'A' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	€	€	€	€
Interim	0.0000	0.0000	0.0000	2.6961
Final	0.2736	8.9880	9.2616	23.4521

US dollar Class 'C' Accumulation shares

Ordinary distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Income 2017	Distribution 2016
	€	€	€	€
Interim	0.4794	0.0000	0.4794	2.7417
Final	2.2806	14.6518	16.9324	23.8060

M&G Investment Funds (1)

Other regulatory disclosures

Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the Manager is subject to a remuneration policy which is consistent with the principles outlined in SYSC19E of the FCA Handbook (UCITS Remuneration Code).

The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its staff is in line with the risk policies and objectives of the UCITS it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here: <http://www.mandg.com/en/corporate/about-mg/our-people/>.

Implementation of the UCITS Remuneration Code remains ongoing and will apply in full for the first time for M&G's 2017 performance year. Quantitative remuneration disclosures will be made following completion of the 2017 performance year (the relevant data/information to make these disclosures will only be available at this time).

Swiss investor information

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

For these funds the TERs are the same as the operating charges disclosed in each fund's financial highlights section under 'Performance and charges'.

Glossary

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

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

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

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

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

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

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

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

Bunds: Fixed income securities issued by the German government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Distribution: Distributions represent a share in the 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.

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.

Glossary

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

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

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

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

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

Equities: Shares of ownership in a company.

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

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

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

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

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

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

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

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

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

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

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

Gilts: Fixed income securities issued by the UK government.

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

Hedging: A method of reducing unnecessary or unintended risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Glossary

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.

Preference shares: Preference shares are a loan to a company that may be traded in the same way as ordinary shares, but generally have a higher yield and pay dividends on fixed dates. Preference shares have varying characteristics as to the treatment of the principal and the dividend payment, which includes ranking them above ordinary shares when it comes to dividend payments.

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

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

Property Expense Ratio (PER): Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

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

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

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

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

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

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

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

Glossary

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

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

Share class: Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Share class hedging: Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Short position: A way for a fund manager to express his or her view that the market might fall in value.

Short selling: This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

Short-dated corporate bonds: Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds: Fixed income securities issued by governments and repaid over relatively short periods.

Sovereign debt: Debt of a government. Also referred to as government bonds.

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

Top-down investing: An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

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

Treasuries: Fixed income securities issued by the US government.

Triple A or AAA rated: The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

UCITS: Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Unconstrained: The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

Underlying value: The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

Underlying yield: Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

Underweight: If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

Unit trust: A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Unit/share type: Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

Valuation: The worth of an asset or company based on its current price.

Volatile: When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

Volatility: The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

Warrant: A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

Yield: This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (equity): Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (bonds): This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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

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Notes

