



M&G Investment Funds (4)

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



Contents

M&G Investment Funds (4)

Authorised Corporate Director's Report	Page 1
Depository's Responsibilities and Report	Page 3
Independent Auditor's Report	Page 4
Financial statements and notes	Page 6
Directors' statement	Page 8

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

M&G Episode Allocation Fund	Page 9
M&G Episode Growth Fund	Page 25
M&G Managed Growth Fund	Page 41

Other regulatory disclosures **Page 55**

Glossary **Page 56**

M&G Investment Funds (4)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (4) presents its Annual Long Report and audited Financial Statements for the year ended 31 October 2017.

The audited financial statements of M&G Investment Funds (4) 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 (4) is an umbrella Open-Ended Investment Company (OEIC) and contains three sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a non-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 20 February 2002 and was launched on 20 June 2002, following the conversion of a series of authorised unit trusts.

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

As at 31 October 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 Episode Allocation Fund

Tony Finding & Juan Nevado

M&G Episode Growth Fund

Eric Lonergan & Jenny Rodgers

M&G Managed Growth Fund

David Fishwick

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, N M Donnelly*, P R Jelfs, G W MacDowall, L J Mumford

* 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
Atria One, 144 Morrison Street, Edinburgh EH3 8EX, UK

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.

M&G Investment Funds (4)

Authorised Corporate Director's Report

Investor information

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

Customer services and administration for UK clients:

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

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

Telephone: 0800 390 390 (UK only)

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

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 (4)

Depositary's Responsibilities and Report

Statement of the Depositary's Responsibilities and Report of the Depositary to the Shareholders of M&G Investment Funds (4) ('the Company') for the period ended 31 October 2017

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

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

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

The Depositary must ensure that:

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

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

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

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

Edinburgh
14 December 2017

National Westminster Bank Plc
Trustee and Depositary Services

M&G Investment Funds (4)

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Investment Funds (4)

Opinion

We have audited the financial statements of M&G Investment Funds (4) ("the Company") for the year ended 31 October 2017 which comprise the Statement of Total Return and Statement of Changes in Net Assets Attributable to Shareholders together with the Balance Sheet for each of the Company's sub-funds, the accounting policies of the Company and the related notes for each sub-fund. 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 FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company comprising each of its sub-funds as at 31 October 2017 and of the net revenue and the net capital gains on the scheme property of the Company comprising each of its sub-funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting standard applicable in the UK and Republic of Ireland'.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the ACD's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the ACD has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The ACD is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions 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 ACD's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the follow matter in relation to which the Collective Investment Schemes Sourcebook of the Financial Conduct Authority rules requires us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

M&G Investment Funds (4)

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Investment Funds (4)

Responsibilities of the Authorised Corporate Director (ACD)

As explained more fully in the ACD's responsibilities statement, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the ACD determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the ACD is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the ACD either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Edinburgh
14 December 2017

Ernst & Young LLP
Statutory Auditor

M&G Investment Funds (4)

Financial statements and notes

The financial statements for M&G Investment Funds (4) 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 (4) 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 (4) 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 (4) is UK sterling.

c) Exchange rates

Transactions in currencies other than each fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 31 October 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 October 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 (4)

Financial statements and notes

Notes to the financial statements

2 Summary of significant accounting policies (continued)

f) Treatment of income and expenses

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

g) Tax

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

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

Deferred tax is recognised in respect of temporary timing differences that have originated but not reversed by the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average rate of tax expected to apply in the period in which it expects the deferred tax to be realised or settled. A deferred tax asset is only recognised to the extent that it is more likely than not that 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, 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 (4)

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, exchange rates, 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 Episode Allocation Fund	VaR
M&G Episode Growth Fund	VaR
M&G Managed Growth 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.

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

14 December 2017

M&G Episode Allocation Fund

Authorised Corporate Director's Report

Investment objective

The fund's objective is to maximise total return (the combination of income and growth of capital) through investment in a diversified range of asset types. Subject to this, the fund aims to grow income in the long term.

Investment policy

The fund manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets. Central to this approach is the identification of episodes, which are periods of time during which, in the fund manager's view, asset prices become over- or under-stated, relative to objective valuation measures, due to the emotional reaction of investors to events. These episodes can exist over both the short and medium term.

The fund invests in transferable securities, fixed income assets (including, but not limited to, corporate bonds and government and public securities), warrants, money market instruments, deposits, cash and near cash.

Exposure to these assets, and to property, may be gained via collective investment schemes and derivatives (including equity index futures, currency forwards, interest rate swaps and other liquid derivatives). The fund will invest no more than 60% of the portfolio in equities. Derivatives may also be used for efficient portfolio management purposes.

Investment approach

The fund will typically invest 20-60% of its assets in company shares, 30-75% in fixed income securities (including cash) and up to 20% in other assets, which can include indirect exposure to property and convertibles (fixed income investments that have the right to be converted into a predetermined number of company shares).

The fund managers will actively manage the fund's foreign currency exposure to seek to enhance returns, with a minimum of 30% of the fund exposed to sterling and a minimum of 60% in developed market currencies. The fund's investment strategy may involve the use of financial instruments to take short positions, that is, positions that profit from a fall in the price of an asset.

Risk profile

The fund invests globally in a broad range of assets, including company shares (equities), fixed income securities (bonds), currencies and other assets such as property shares and convertible bonds. The fund is, therefore, subject to the price volatility of global financial and currency markets. Exposure to the different asset classes may be gained through the use of derivatives.

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

The fund adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets, and the managers will seek to maximise portfolio diversity wherever possible. However, in cases where the managers believe that the opportunities are limited to a few areas, there may be a higher-than-usual concentration of asset or market exposure. Such strategies may result in higher volatility of the fund's short-term performance.

The blend of assets held in the fund is regularly adjusted depending on where the managers see the most value and to manage risks, including liquidity, credit, currency and market risks. 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 November 2017, for the year ended 31 October 2017

Performance against objective

Between 1 November 2016 (the start of the review period) and 1 November 2017, the M&G Episode Allocation Fund produced a positive total return (the combination of income and growth of capital) across all share classes. The fund's returns were ahead of those of its peer group, the IA Mixed Investment 20-60% Sector, which delivered an average return of 7.2% over the same period.

Over five years, the fund has met its objective of maximising total return. Performance was also positive for all share classes since launch.*

* 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.

M&G Episode Allocation Fund

Authorised Corporate Director's Report

Investment review

Investment performance

The year under review was a strong period for global stockmarkets, beginning with the boost to markets that followed the surprise election of Donald Trump as US president in November 2016. This was despite the period being punctuated by phases of political turbulence that could have led to weakness in share prices. These included political events such as the Dutch and French elections, as well as tension between the US and North Korea. As the period progressed, global economic growth became increasingly more synchronised, with better earnings figures supporting equities (company shares) as investors' risk appetite steadily improved. It appears that investors are now prepared to move on from the fear of recession that caused them to embrace the sort of assets that were more likely to preserve their capital rather than have a chance of increasing it.

Indeed, several global stockmarkets reached record highs in the second half of the review period, including the US and UK, and others attained their highest levels for many years, such as Japan, which ended October at a more than 20-year high. This proved beneficial for the fund where its exposure to equities included the broad European market, as well as positions in specific countries such as Italy, Spain and Germany. In Asia, strong corporate earnings in South Korea and Singapore resulted in significant gains for the fund, as did the exposure to Japan. Further value was added by the exposure to UK stocks, via a position in the FTSE 100 Index and a holding in the M&G Recovery Fund.

Another notable contributor was the position in US financials. We felt this sector had been undervalued in recent years by investors who were influenced more by their memory of the banks' role in the 2008 global financial crisis, than focusing on the facts about the strength of these companies today, including the improvements in regulation and management. As market confidence has improved over the past year, 'unloved' areas of the market such as this have been among the strongest performers because of the good value they were offering.

Holdings in a number of emerging market and peripheral European government bonds also added value, as did positions in the corporate bond market. (Bonds are loans that are extended by an investor to an issuer – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.) Although talk – prompted by stronger economic growth – by several central banks of potential increases in interest rates led to sporadic bouts of weakness in government bond prices, the stubbornly low level of inflation meant that bonds were only modestly down over the period, if at all. Although interest rates did rise in the US and UK, amongst others, it appears that policymakers will make only very gradual changes.

A holding in the M&G Property Portfolio provided a further source of positive returns, while the fund's exposure to convertible bonds detracted.

Investment activities

Following the very strong performance of US financial stocks, the size of our holdings in these assets was reduced towards the middle of the period to remove some risk from the portfolio. This left the fund with slightly lower equity exposure at the end of the period than at the start. However, equities remain our preferred asset class overall.

We also significantly reduced exposure to the US corporate bond market, as this part of the market has rallied to the point where prices are less attractive. However, we maintain a basket of corporate bonds from the mining sector, and holdings in the M&G Total Return Credit Investment Fund and M&G Global High Yield Bond Fund.

We switched a position in 2-year Brazilian government bonds for a higher-yielding 5-year Brazilian government bond to take advantage of a rise in bond yields resulting from political 'noise' around the potential impeachment of the Brazilian president. Elsewhere, we added new holdings in Argentinian government bonds. We feel the price of these bonds is offering more than adequate compensation for the risk of holding them.

These changes leave the portfolio with a higher level of cash at the end of the period than at the start. We are comfortable with this for now as we anticipate further market turbulence over the period ahead and feel that having a slightly higher than normal level of cash could prove helpful in responding to both the risks and opportunities this could present.

Outlook

Despite potentially unsettling newsflow about politics and policy action dominating headlines over the review period, global economic indicators have broadly improved. Economic data in the US remains robust, although investors are generally finding this less surprising than in the past. This means there is perhaps less potential for substantial gains in parts of the US market where share prices are already reflecting this positive economic backdrop. Importantly though, for the first time in many years, we are witnessing a synchronised upswing in global growth, with much of the good news coming from outside the US.

In Europe, positive data on factors such as employment seems to be outweighing political risks for now, and the European Central Bank has so far maintained a very supportive policy stance. The UK has seen some slightly weaker figures lately, but these are small changes and not, in our view, signs of a material deterioration in current economic conditions – we are certainly wary of commentary attributing it to the June 2017 general election or ongoing Brexit issues. Meanwhile, in Asia, markets such as South Korea and China are showing sustained growth.

M&G Episode Allocation Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

Improving global economic activity and the potential for this to trigger higher inflation means we have observed a shift in tone from developed market central bankers, suggesting increased aversion to the low or negative interest rates they have used in recent years to tackle the aftermath of the 2008 financial crisis. There are also signs of a pick-up in consumer and business sentiment. We believe this is very important as, despite evidence of robust global economic recovery, persistent pessimism has weighed on the sustainability of the growth outlook since 2008. In other words, consumers and businesses need to believe that economic conditions are genuinely improving in order to be encouraged to spend and invest more, in order to stimulate further growth.

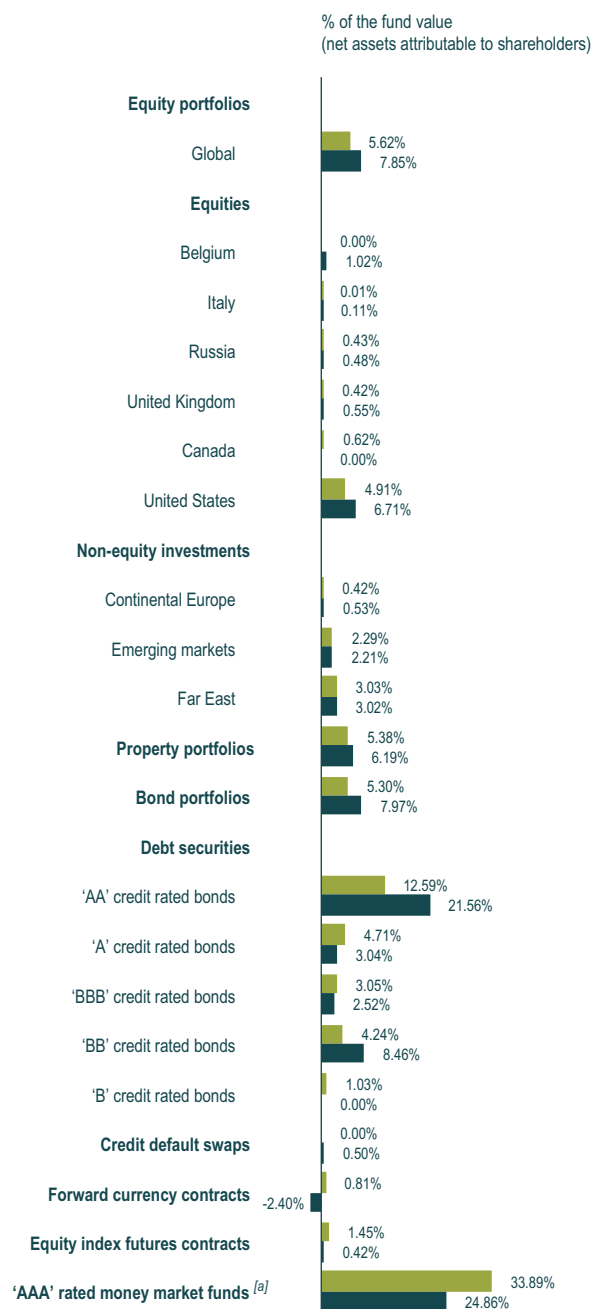
For now, we remain positive on company shares overall as we believe, despite the recent rise in prices, these assets continue to offer the best compensation for genuine risk in terms of the compelling prices at which they can be bought, in the context of an improving economic environment. Meanwhile, developed market government bonds remain deeply unattractive, in our view.

Tony Finding & Juan Nevado Co-fund managers

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

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

Classification of investments



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

31 October 2017

31 October 2016

Source: M&G

M&G Episode Allocation Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at 31 October Holding	2017 £'000	2017 %	2016 %
Equity portfolios ^[a]	30,923	5.62	7.85
Global	30,923	5.62	7.85
2,022,754 M&G Global Dividend Fund	4,131	0.75	
1,591,042 M&G Global Leaders Fund	4,228	0.77	
5,641,220 M&G Recovery Fund Sterling 'C' (Accumulation)	22,564	4.10	
Equities	35,142	6.39	8.87
Belgium	0	0.00	1.02
Italy	73	0.01	0.11
18,043 BCA MPS	73	0.01	
Russia	2,362	0.43	0.48
216,112 Sberbank of Russia ADR	2,362	0.43	
United Kingdom	2,289	0.42	0.55
3,372,001 Lloyds Banking Group	2,289	0.42	
Canada	3,415	0.62	0.00
90,000 Methanex	3,415	0.62	
United States	27,003	4.91	6.71
42,926 American Express	3,086	0.56	
213,832 Bank of America	4,463	0.81	
72,493 Bank of New York Mellon	2,831	0.52	
85,159 Citigroup	4,751	0.86	
59,080 JPMorgan Chase	4,531	0.82	
29,998 MasterCard	3,380	0.62	
93,775 Wells Fargo	3,961	0.72	
Non-equity investments	31,600	5.74	5.76
Continental Europe	2,310	0.42	0.53
2,850,882 Lyxor FTSE ATHEX Large Cap ETF	2,310	0.42	
Emerging markets	12,628	2.29	2.21
620,383 iShares MSCI Turkey ETF	12,628	2.29	
Far East	16,662	3.03	3.02
411,507 db x-trackers MSCI Indonesia Index UCITS ETF	4,769	0.87	
819,587 Lyxor MSCI India ETF	11,893	2.16	
Property portfolios ^[a]	29,581	5.38	6.19
2,573,259 M&G Property Portfolio 'I' (Income)	29,581	5.38	
Bond portfolios ^[a]	29,170	5.30	7.97
4,230,697 M&G Global Convertibles Fund Sterling 'A' (Accumulation)	8,794	1.60	
9,136,258 M&G Global High Yield Bond Fund Sterling 'X' (Accumulation)	12,161	2.21	
72,210 M&G Total Return Credit Investment Fund Sterling 'C' (Accumulation)	8,215	1.49	
Debt securities	140,970	25.62	35.58
'AA' credit rated bonds	69,313	12.59	21.56
\$51,220,000 US Treasury 0% 2017	38,702	7.03	
\$40,550,000 US Treasury 0% 2018	30,611	5.56	
'A' credit rated bonds	25,920	4.71	3.04
MXN559,099,100 Mexico (United Mexican States) 8.5% 2018	22,360	4.06	
\$4,473,000 Rio Tinto Finance 3.75% 2025	3,560	0.65	
'BBB' credit rated bonds	16,762	3.05	2.52
\$5,777,000 Anglo American Capital 4.875% 2025	4,673	0.85	
\$4,320,000 BHP Billiton Finance Var. Rate 2075 (6.75%)	3,849	0.70	
\$4,208,000 FMG Resources 9.75% 2022	3,561	0.65	
\$5,800,000 Glencore Funding 4.625% 2024	4,679	0.85	

Portfolio statement (continued)

as at 31 October Holding	2017 £'000	2017 %	2016 %
'BB' credit rated bonds	23,307	4.24	8.46
BRL34,790,000 Brazil (Federal Republic of) 10% 2023	8,165	1.49	
\$6,603,000 Freeport-McMoRan 5.45% 2043	4,668	0.85	
€10,787,000 Portugal (Republic of) 4.1% 2045	10,474	1.90	
'B' credit rated bonds	5,668	1.03	0.00
\$6,842,000 Argentina (Republic of) 6.875% 2027	5,668	1.03	
Credit default swaps	0	0.00	0.50
Forward currency contracts	4,451	0.81	(2.40)
€2,275,043 Bought for £2,097,799 (expires 22.11.17)	(94)	(0.01)	
€(47,698,297) Sold for £43,567,720 (expires 22.11.17)	1,549	0.28	
¥(1,459,388,945) Sold for £10,402,065 (expires 22.11.17)	658	0.12	
KRW5,684,393,637 Bought for \$4,991,740 (expires 22.11.17)	62	0.01	
CHF855,668 Bought for £692,165 (expires 22.11.17)	(43)	(0.01)	
CHF(11,580,420) Sold for £9,328,516 (expires 22.11.17)	545	0.10	
TRY39,792,061 Bought for £8,552,007 (expires 22.11.17)	(658)	(0.12)	
\$(141,609,335) Sold for £109,498,640 (expires 22.11.17)	2,432	0.44	
Equity index futures contracts	7,969	1.45	0.42
44 DAX Index Dec 2017	711	0.13	
483 EURO STOXX 50 Index Dec 2017	718	0.13	
222 FTSE 100 Index Dec 2017	181	0.03	
136 FTSE MIB Index Dec 2017	332	0.06	
32 Hang Seng Index Nov 2017	(7)	0.00	
162 Hang Seng China Enterprise Index Nov 2017	21	0.00	
168 IBEX 35 Index Nov 2017	612	0.11	
291 KOSPI 200 Index Dec 2017	1,074	0.20	
240 MSCI Singapore Index Nov 2017	76	0.02	
510 MSCI Taiwan Index Nov 2017	123	0.02	
110 S&P 500 E-Mini Index Dec 2017	390	0.07	
317 TOPIX Index Dec 2017	3,738	0.68	
Portfolio of investments	309,806	56.31	70.74
'AAA' rated money market funds ^{[b] [c]}	186,480	33.89	24.86
186,480,000 Northern Trust Global Fund - Sterling	186,480	33.89	
Total portfolio (notes 2c & 2d on page 6)	496,286	90.20	95.60
Net other assets / (liabilities)	53,947	9.80	4.40
Net assets attributable to shareholders	550,233	100.00	100.00

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

^[a] All holdings in M&G collective investment schemes are in Sterling Class 'A' (Income) shares/units unless otherwise stated.

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

^[c] Cash equivalents.

M&G Episode Allocation 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 (4), 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 October	£'000	£'000	£'000
Fund net asset value (NAV)	550,233	350,964	360,208

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 01.11.16 % ^[a]	Three years 03.11.14 % p.a.	Five years 01.11.12 % p.a.	Since launch % p.a.
Sterling^[b]				
Class 'A'	+14.4	+7.5	+8.2	+6.2 ^[c]
Class 'I'	+15.0	+8.2	+8.8	+8.7 ^[d]
Class 'R'	+14.8	+8.0	+8.6	+8.5 ^[d]
Class 'X'	+14.4	+7.5	+8.2	+6.2 ^[c]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 16 February 2007, the launch date of the fund.

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

M&G Episode Allocation 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, comprising 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 depository, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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 October	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.01	0.01	0.01
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.01	0.01	0.01	0.01
Dilution adjustments ^[c]	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01	0.01
as at 31 October	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.43	0.52	0.48	0.48

^[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 Episode Allocation 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.

Historic yields for the current year are calculated as at 10 November 2017.

Sterling Class 'A' Income share performance

The share class was launched on 16 February 2007.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	133.27	127.28	126.70
Return before operating charges and after direct portfolio transaction costs	19.99	11.05	4.45
Operating charges	(2.36)	(2.01)	(2.05)
Return after operating charges	17.63	9.04	2.40
Distributions	(3.03)	(3.05)	(1.82)
Closing NAV	147.87	133.27	127.28
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments ^[a]	(0.01)	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	1.64	1.60	1.58
Return after operating charges	+13.23	+7.10	+1.89
Historic yield ^[c]	2.05	2.32	1.45
Effect on yield of charges offset against capital	1.50	1.35	1.35
Other information			
Closing NAV (£'000)	26,986	25,293	38,704
Closing NAV percentage of total fund NAV (%)	4.91	7.21	10.74
Number of shares	18,249,873	18,979,115	30,408,887
Highest share price (UK p)	149.09	134.76	138.01
Lowest share price (UK p)	129.90	111.93	121.25

Sterling Class 'A' Accumulation share performance

The share class was launched on 16 February 2007.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	166.10	154.89	152.05
Return before operating charges and after direct portfolio transaction costs	25.10	13.68	5.32
Operating charges	(2.97)	(2.47)	(2.48)
Return after operating charges	22.13	11.21	2.84
Distributions	(1.12)	(3.75)	(2.19)
Retained distributions	1.12	3.75	2.19
Closing NAV	188.23	166.10	154.89
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments ^[a]	(0.01)	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	1.64	1.60	1.58
Return after operating charges	+13.32	+7.24	+1.87
Historic yield	0.60	2.29	1.44
Effect on yield of charges offset against capital	0.00	1.35	1.35
Other information			
Closing NAV (£'000)	129,924	62,000	136,153
Closing NAV percentage of total fund NAV (%)	23.61	17.66	37.80
Number of shares	69,023,967	37,325,965	87,905,476
Highest share price (UK p)	188.99	166.95	166.42
Lowest share price (UK p)	161.91	136.92	147.26

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,242.59	1,177.78	1,165.35
Return before operating charges and after direct portfolio transaction costs	184.93	101.18	39.29
Operating charges	(12.14)	(9.84)	(9.92)
Return after operating charges	172.79	91.34	29.37
Distributions	(26.26)	(26.53)	(16.94)
Closing NAV	1,389.12	1,242.59	1,177.78
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.07	0.08	0.09
Dilution adjustments ^[a]	(0.05)	(0.02)	0.00
Total direct portfolio transaction costs	0.02	0.06	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	0.89	0.84	0.83
Return after operating charges	+13.91	+7.76	+2.52
Historic yield ^[c]	1.89	2.16	1.46
Effect on yield of charges offset against capital	0.75	0.60	0.60
Other information			
Closing NAV (£'000)	83,636	42,782	36,792
Closing NAV percentage of total fund NAV (%)	15.20	12.19	10.21
Number of shares	6,020,748	3,443,008	3,123,843
Highest share price (UK p)	1,400.01	1,255.87	1,272.89
Lowest share price (UK p)	1,211.28	1,038.01	1,123.21

M&G Episode Allocation Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,351.36	1,252.43	1,221.86
Return before operating charges and after direct portfolio transaction costs	202.56	109.48	41.04
Operating charges	(13.29)	(10.55)	(10.47)
Return after operating charges	189.27	98.93	30.57
Distributions	(17.99)	(28.43)	(17.88)
Retained distributions	17.99	28.43	17.88
Closing NAV	1,540.63	1,351.36	1,252.43
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.07	0.08	0.09
Dilution adjustments ^[a]	(0.05)	(0.02)	0.00
Total direct portfolio transaction costs	0.02	0.06	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	0.89	0.84	0.83
Return after operating charges	+14.01	+7.90	+2.50
Historic yield	1.17	2.13	1.44
Effect on yield of charges offset against capital	0.00	0.60	0.60
Other information			
Closing NAV (£'000)	287,826	198,807	124,048
Closing NAV percentage of total fund NAV (%)	52.31	56.65	34.44
Number of shares	18,682,329	14,711,649	9,904,587
Highest share price (UK p)	1,546.81	1,358.11	1,341.07
Lowest share price (UK p)	1,317.31	1,109.14	1,184.24

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	123.25	117.12	116.12
Return before operating charges and after direct portfolio transaction costs	18.40	10.09	3.97
Operating charges	(1.53)	(1.27)	(1.29)
Return after operating charges	16.87	8.82	2.68
Distributions	(2.68)	(2.69)	(1.68)
Closing NAV	137.44	123.25	117.12
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	1.14	1.09	1.08
Return after operating charges	+13.69	+7.53	+2.31
Historic yield ^[c]	1.94	2.21	1.45
Effect on yield of charges offset against capital	1.00	0.85	0.85
Other information			
Closing NAV (£'000)	2,221	1,819	1,469
Closing NAV percentage of total fund NAV (%)	0.40	0.52	0.41
Number of shares	1,616,299	1,475,587	1,254,087
Highest share price (UK p)	138.54	124.59	126.71
Lowest share price (UK p)	120.14	103.15	111.73

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	134.21	124.64	121.87
Return before operating charges and after direct portfolio transaction costs	20.18	10.93	4.12
Operating charges	(1.68)	(1.36)	(1.35)
Return after operating charges	18.50	9.57	2.77
Distributions	(1.49)	(2.89)	(1.75)
Retained distributions	1.49	2.89	1.75
Closing NAV	152.71	134.21	124.64
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments ^[a]	(0.01)	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	1.14	1.09	1.08
Return after operating charges	+13.78	+7.68	+2.27
Historic yield	0.98	2.18	1.42
Effect on yield of charges offset against capital	0.00	0.85	0.85
Other information			
Closing NAV (£'000)	1,022	459	421
Closing NAV percentage of total fund NAV (%)	0.19	0.13	0.12
Number of shares	669,220	342,009	337,452
Highest share price (UK p)	153.31	134.88	133.61
Lowest share price (UK p)	130.82	110.31	118.07

Sterling Class 'X' Income share performance

The share class was launched on 16 February 2007.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	133.35	127.35	126.77
Return before operating charges and after direct portfolio transaction costs	20.01	11.06	4.45
Operating charges	(2.36)	(2.01)	(2.05)
Return after operating charges	17.65	9.05	2.40
Distributions	(3.04)	(3.05)	(1.82)
Closing NAV	147.96	133.35	127.35
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments ^[a]	(0.01)	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	1.64	1.60	1.58
Return after operating charges	+13.24	+7.11	+1.89
Historic yield ^[c]	2.05	2.31	1.45
Effect on yield of charges offset against capital	1.50	1.35	1.35
Other information			
Closing NAV (£'000)	14,101	14,906	17,158
Closing NAV percentage of total fund NAV (%)	2.56	4.25	4.76
Number of shares	9,530,489	11,178,814	13,473,027
Highest share price (UK p)	149.18	134.84	138.09
Lowest share price (UK p)	129.98	112.00	121.59

M&G Episode Allocation Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 16 February 2007.

for the year to 31 October	2017	2016	2015
Change in NAV per share	UK p	UK p	UK p
Opening NAV	166.24	155.01	152.16
Return before operating charges and after direct portfolio transaction costs	25.13	13.69	5.33
Operating charges	(2.96)	(2.46)	(2.48)
Return after operating charges	22.17	11.23	2.85
Distributions	(1.15)	(3.74)	(2.19)
Retained distributions	1.15	3.74	2.19
Closing NAV	188.41	166.24	155.01
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments ^[a]	(0.01)	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	1.64	1.60	1.58
Return after operating charges	+13.34	+7.24	+1.87
Historic yield	0.60	2.28	1.44
Effect on yield of charges offset against capital	0.00	1.35	1.35
Other information			
Closing NAV (£'000)	4,517	4,898	5,463
Closing NAV percentage of total fund NAV (%)	0.82	1.39	1.52
Number of shares	2,397,526	2,946,129	3,524,534
Highest share price (UK p)	189.15	167.09	166.54
Lowest share price (UK p)	162.05	137.03	147.37

^[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 Episode Allocation Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 October	Note	2017		2016	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		46,701		19,360
Revenue	5	9,022		9,506	
Expenses	6	(3,992)		(3,635)	
Net revenue / (expense) before taxation		5,030		5,871	
Taxation	7	(807)		(941)	
Net revenue / (expense) after taxation			4,223		4,930
Total return before distributions			50,924		24,290
Distributions	8		(5,333)		(7,910)
Change in net assets attributable to shareholders from investment activities			45,591		16,380

Statement of change in net assets attributable to shareholders

for the year to 31 October		2017		2016	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			350,964		360,208
Amounts received on issue of shares		174,051		93,193	
Amounts paid on cancellation of shares		(24,085)		(124,792)	
			149,966		(31,599)
Dilution adjustments			369		194
Change in net assets attributable to shareholders from investment activities (see above)			45,591		16,380
Retained distributions on Accumulation shares			3,343		5,779
Unclaimed distributions			0		2
Closing net assets attributable to shareholders			550,233		350,964

Balance sheet

as at 31 October	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments ^[a]		497,088	345,047
Current assets			
Debtors	9	4,064	1,370
Cash and bank balances	10	60,139	20,417
Total assets		561,291	366,834
Liabilities			
Investment liabilities		(802)	(9,531)
Creditors			
Bank overdrafts		0	(890)
Overdrawn positions at futures clearing houses and collateral manager		(9,157)	(3,677)
Distribution payable		(499)	(496)
Other creditors	11	(600)	(1,276)
Total liabilities		(11,058)	(15,870)
Net assets attributable to shareholders		550,233	350,964

[a] Includes cash equivalents of £186,480,000 (2016: £87,247,000).

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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.

3 Net capital gains / (losses)

for the year to 31 October	2017 £'000	2016 £'000
Non-derivative securities	7,348	44,506
Derivative contracts	38,759	(23,882)
Currency gains / (losses)	472	(1,393)
Management charge rebates taken to capital	121	132
Administration charge rebates taken to capital	12	7
Transaction charges	(11)	(10)
Net capital gains / (losses) ^[a]	46,701	19,360

[a] Includes realised gains of £27,582,000 and unrealised gains of £18,997,000 (2016: realised losses of £5,097,000 and unrealised gains of £24,328,000). Certain realised gains and losses in the current year were unrealised in the prior year.

M&G Episode Allocation 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 page 14.

for the year to 31 October	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	9,176		7,905	
Commissions	2	0.02	3	0.04
Equities after transaction costs	9,178		7,908	
Debt securities ^[a]	317,454		296,997	
Collective investment schemes				
Collective investment schemes before transaction costs	17,233		116,819	
Commissions	5	0.03	1	0.00
Collective investment schemes after transaction costs	17,238		116,820	
Total purchases after transaction costs	343,870		421,725	
b) Sales				
Equities				
Equities before transaction costs	12,824		7,645	
Commissions	(6)	0.05	(3)	0.04
Equities after transaction costs	12,818		7,642	
Debt securities ^[a]	295,647		269,953	
Other transaction types				
Corporate actions	0		77	
Collective investment schemes				
Collective investment schemes before transaction costs	0		163,976	
Commissions	0	0.00	(3)	0.00
Collective investment schemes after transaction costs	0		163,973	
Total sales after transaction costs	308,465		441,645	
c) Direct portfolio transaction costs				
	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Equities	8	0.01	6	0.00
Collective investment schemes	5	0.00	4	0.00
Derivatives	8	0.00	12	0.01
Total direct portfolio transaction costs ^[b]	21	0.01	22	0.01
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[c]		0.43		0.52

^[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 October	2017 £'000	2016 £'000
Administration charge rebates	99	99
Bank interest	5	30
Derivative revenue	711	2,224
Distributions from collective investment schemes: non-taxable	865	1,111
Distributions from collective investment schemes: taxable	521	733
Distributions from collective investment schemes: property income dividends	652	654
Dividends from equity investments: non-taxable	641	491
Dividends from equity investments: taxable	66	20
Interest distributions	259	472
Interest on debt securities	4,724	3,176
Management charge rebates	479	496
Total revenue	9,022	9,506

6 Expenses

for the year to 31 October	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge ^[a]	3,317	2,980
Administration charge ^[b]	615	514
	3,932	3,494
Payable to the Depositary or associate		
Depositary's charge (including VAT)	29	25
Other expenses		
Audit fee (including VAT)	10	10
Dividend charges	4	2
Interest payable	1	80
Legal fees	0	2
Safe custody charge	16	21
Tax fees (including VAT)	0	1
	31	116
Total expenses	3,992	3,635

^[a] This charge excludes management charge rebates received from M&G Securities Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £121,000 (2016: £132,000) and £479,000 (2016: £496,000).

^[b] This charge excludes administration charge rebates received from M&G Securities Limited, or an associate, in relation to the administration charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £12,000 (2016: £7,000) and £99,000 (2016: £99,000).

M&G Episode Allocation Fund

Financial statements and notes

Notes to the financial statements

7 Taxation

for the year to 31 October	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	708	870
Overseas tax	110	72
Deferred tax (note 7c)	(11)	(1)
Total taxation	807	941
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	5,030	5,871
Corporation tax at 20%	1,006	1,174
Effects of:		
Tax on management and administration charge rebates taken to capital	27	27
Dividends from equity investments: non-taxable	(128)	(98)
Distributions from collective investment schemes: non-taxable	(173)	(222)
Overseas tax	110	72
Total double taxation relief	(34)	(12)
Deferred tax prior year adjustment	(1)	0
Total tax charge (note 7a)	807	941
c) Provision for deferred taxation		
Provision at the start of the year	38	39
Deferred tax in profit and loss account (note 7a)	(11)	(1)
Provision at the end of the year	27	38

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

8 Distributions

for the year to 31 October	2017		2016	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
First interim	514	993	441	1,241
Second interim	423	729	461	1,319
Third interim	680	1,027	586	1,696
Final	499	594	496	1,523
Total net distributions		5,459		7,763
Income deducted on cancellation of shares		41		312
Income received on issue of shares		(167)		(165)
Distributions		5,333		7,910
Net revenue / (expense) per statement of total return		4,223		4,930
Expenses offset against capital		1,090		2,980
Tax on charges taken to capital		20		0
Distributions		5,333		7,910

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 October	2017 £'000	2016 £'000
Administration charge rebates due	3	6
Amounts receivable on issues of shares	2,209	15
Debt security interest receivable	1,563	741
Derivative revenue receivable	0	234
Distributions receivable	209	217
Dividends receivable	25	31
Futures interest receivable	30	51
Management charge rebates due	14	35
Sales awaiting settlement	0	2
Tax recoverable	0	38
Overseas tax recoverable	11	0
Total debtors	4,064	1,370

10 Cash and bank balances

as at 31 October	2017 £'000	2016 £'000
Amounts held at futures clearing houses and collateral manager	13,010	20,266
Cash held as bank balances	47,129	151
Total cash and bank balances	60,139	20,417

11 Other creditors

as at 31 October	2017 £'000	2016 £'000
ACD's annual management charge payable	101	168
Administration charge payable	18	30
Amounts payable on cancellation of shares	135	555
Corporation tax payable	300	467
Deferred taxation	27	38
Expenses payable	19	18
Total other creditors	600	1,276

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
	01.11.16	Issued	Cancelled	
Sterling				
Class 'A' Income	18,979,115	1,154,513	(1,883,755)	18,249,873
Class 'A' Accumulation	37,325,965	36,445,992	(4,747,990)	69,023,967
Class 'I' Income	3,443,008	2,863,831	(286,091)	6,020,748
Class 'I' Accumulation	14,711,649	4,360,382	(389,702)	18,682,329
Class 'R' Income	1,475,587	225,618	(84,906)	1,616,299
Class 'R' Accumulation	342,009	332,069	(4,858)	669,220
Class 'X' Income	11,178,814	81,994	(1,730,319)	9,530,489
Class 'X' Accumulation	2,946,129	101,639	(650,242)	2,397,526

M&G Episode Allocation Fund

Financial statements and notes

Notes to the financial statements

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.35
Class 'I'	1.00 ^[a]	n/a	0.60
Class 'R'	1.00 ^[a]	n/a	0.85
Class 'X'	nil	4.50 ^[b]	1.35

^[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.

Amounts paid to M&G Securities Limited in respect of rebate arrangements for the ACD's annual management charge and administration charge are disclosed in notes 3 and 5. Amounts due at the year end from the ACD, and/or associate, in respect of these rebates are disclosed in note 9.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £7,980,000 (2016: £8,926,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £89,674,000 (2016: £77,252,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 14.86% (2016: 1.59%) 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 October Basis of valuation	Assets	Liabilities	Assets	Liabilities
	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Level 1	144,031	(7)	129,276	(804)
Level 2	353,057	(795)	215,771	(8,727)
Level 3	0	0	0	0
	497,088	(802)	345,047	(9,531)

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 and exposure

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

The VaR limit set during the financial year to 31 October 2017 was 13% (2016: 13%).

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

	2017 %	2016 %
for the year to 31 October		
Lowest	2.73	4.96
Highest	5.36	7.55
Average	4.02	6.40

M&G Episode Allocation Fund

Financial statements and notes

Notes to the financial statements

20 Credit risk exposure

The table below sets out the credit quality of the financial assets.

	2017 £'000	2016 £'000
as at 31 October		
Investment grade securities	111,995	95,174
Below investment grade securities	28,975	29,702
Other investments	355,316	210,640
Total	496,286	335,516

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

	Forward currency contracts £'000	Futures £'000
as at 31 October 2017		
Bank of America Merrill Lynch	1,435	7,969
BNP Paribas	2,432	0
State Street Bank	572	0
UBS	12	0
Total	4,451	7,969

	Swaps £'000	Forward currency contracts £'000	Futures £'000
as at 31 October 2016			
Bank of America Merrill Lynch	0	0	1,464
Credit Suisse	1,755	0	0
State Street Bank	0	(8,438)	0
Total	1,755	(8,438)	1,464

21 Leverage risk exposure

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

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

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

	2017 £'000	2017 %	2016 £'000	2016 %
for the year to 31 October				
Lowest	514,255	123	418,625	116
Highest	997,854	217	708,056	204
Average	596,928	146	495,779	146

22 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	01.11.16	31.01.17	01.02.17	31.03.17
Second interim	01.02.17	30.04.17	02.05.17	30.06.17
Third interim	01.05.17	31.07.17	01.08.17	30.09.17
Final	01.08.17	31.10.17	01.11.17	31.12.17

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.

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.4502	0.4037	0.8539	0.6301
Second interim	0.1770	0.5401	0.7171	0.6929
Third interim	0.4373	0.3963	0.8336	0.9215
Final	0.2377	0.3906	0.6283	0.8066

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.2187	0.2234	0.4421	0.7717
Second interim	0.0813	0.1879	0.2692	0.8474
Third interim	0.1944	0.1563	0.3507	1.1331
Final	0.0000	0.0614	0.0614	0.9988

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	3.1656	4.3352	7.5008	5.3629
Second interim	2.1598	4.0730	6.2328	6.0029
Third interim	5.1888	2.0982	7.2870	8.1320
Final	2.2213	3.0135	5.2348	7.0297

M&G Episode Allocation Fund

Financial statements and notes

Notes to the financial statements

22 Dividend distribution tables (continued)

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	3.0536	2.5823	5.6359	5.6918
Second interim	1.7549	2.5046	4.2595	6.4111
Third interim	3.2414	1.9182	5.1596	8.7321
Final	1.5128	1.4210	2.9338	7.5981

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.4864	0.2726	0.7590	0.5471
Second interim	0.2884	0.3449	0.6333	0.6104
Third interim	0.4674	0.2713	0.7387	0.8217
Final	0.1944	0.3529	0.5473	0.7135

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.0226	0.4696	0.4922	0.5829
Second interim	0.3543	0.0000	0.3543	0.6524
Third interim	0.1191	0.3167	0.4358	0.8833
Final	0.0025	0.2034	0.2059	0.7721

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.1803	0.6742	0.8545	0.6270
Second interim	0.2554	0.4622	0.7176	0.6929
Third interim	0.3210	0.5131	0.8341	0.9221
Final	0.2352	0.3958	0.6310	0.8070

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.3114	0.1312	0.4426	0.7625
Second interim	0.0000	0.2694	0.2694	0.8474
Third interim	0.2148	0.1362	0.3510	1.1340
Final	0.0489	0.0357	0.0846	0.9996

M&G Episode Allocation Fund

Financial statements and notes

This page is intentionally blank

M&G Episode Growth Fund

Authorised Corporate Director's Report

Investment objective

The fund's objective is to maximise total return (the combination of income and growth of capital).

Investment policy

The fund manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets. Central to this approach is the identification of episodes, which are periods of time during which, in the fund manager's view, asset prices become over- or under-stated, relative to objective valuation measures, due to the emotional reaction of investors to events. These episodes can exist over both the short and medium term.

The fund invests in transferable securities, fixed income assets (including, but not limited to, corporate bonds and government and public securities), warrants, money market instruments, deposits, cash and near cash.

Exposure to these assets, and to property, may be gained via collective investment schemes and derivatives (including equity index futures, currency forwards, interest rate swaps and other liquid derivatives). The fund will invest a minimum of 50% in collective investment schemes. Derivatives may also be used for efficient portfolio management purposes.

Investment approach

The fund managers believe the best approach for achieving the fund's objective lies in the flexible allocation of capital between asset classes, guided by a robust valuation framework. In particular, they seek to respond where asset prices move away from a reasonable sense of 'fair' value due to investors reacting emotionally to events. They believe such 'episodes' create opportunities because emotions should be less important than underlying fundamentals over the medium and long term.

The fund will typically invest 40-85% of its assets in company shares and 15-50% in fixed income securities (including cash). The fund can also invest up to 10% in other assets that can include indirect exposure to property and convertibles (fixed income investments that have the right to be converted into a predetermined number of company shares).

The fund managers will actively manage the fund's foreign currency exposure to seek to enhance returns with a minimum of 25% of the fund exposed to sterling and a minimum of 50% in developed market currencies. The fund's investment strategy may involve the use of financial instruments to take short positions, that is, positions that profit from a fall in the price of an asset.

Risk profile

The fund invests globally in a broad range of assets, including company shares (equities), fixed income securities (bonds), currencies and other assets such as property shares and convertible bonds. The fund is, therefore, subject to the price volatility of global financial and currency markets. Exposure to the different asset classes may be gained through the use of derivatives.

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

The fund adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets, and the managers will seek to maximise portfolio diversity wherever possible. However, in cases where the managers believe that the opportunities are limited to a few areas, there may be a higher-than-usual concentration of asset or market exposure. Such strategies may result in higher volatility of the fund's short-term performance.

The blend of assets held in the fund is regularly adjusted depending on where the managers see the most value and to manage risks, including liquidity, credit, currency and market risks. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

M&G Episode Growth Fund

Authorised Corporate Director's Report

Investment review

As at 1 November 2017, for the year ended 31 October 2017

Performance against objective

Between 1 November 2016 (the start of the review period) and 1 November 2017, the M&G Episode Growth Fund produced a positive total return (the combination of income and growth of capital) across all share classes. The fund's returns were ahead of those of its peer group, the IA Mixed Investment 40-85% Sector, which delivered an average return of 10.2% over the same period.

Over five years, the fund has met its objective of maximising total return. Performance was also positive for all share classes since launch.*

* 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.

Investment performance

The year under review was a strong period for global stockmarkets, beginning with the boost to markets that followed the surprise election of Donald Trump as US president in November 2016. This was despite the period being punctuated by phases of political turbulence that could have led to weakness in share prices. These included political events such as the Dutch and French elections, as well as tension between the US and North Korea. As the period progressed, global economic growth became increasingly more synchronised, with better earnings figures supporting equities (company shares) as investors' risk appetite steadily improved. It appears that investors are now prepared to move on from the fear of recession that caused them to embrace the sort of assets that were more likely to preserve their capital rather than have a chance of increasing it.

Indeed, several global stockmarkets reached record highs in the second half of the review period, including the US and UK, and others attained their highest levels for many years, such as Japan, which ended October at a more than 20-year high.

One notable contributor was the position in US financials. We felt this sector had been undervalued in recent years by investors who were influenced more by their memory of the banks' role in the 2008 global financial crisis, than focusing on the facts about the strength of these companies today, including the improvements in regulation and management. As market confidence has improved over the past year, 'unloved' areas of the market such as this have been among the strongest performers because of the good value they were offering.

This proved beneficial for the fund where its exposure to equities included the broad European market, as well as positions in specific countries such as Italy and Spain. In Asia, strong corporate earnings in South Korea resulted in significant gains for the fund, as did the exposure to Japan, and to the broader market via the M&G Asian Fund. Further value was added by the exposure to UK stocks, via holdings in the M&G Smaller Companies Fund and the M&G Recovery Fund.

Holdings in a number of emerging market and peripheral European government bonds also added value, as did positions in the corporate bond market. (Bonds are loans that are extended by an investor to an issuer – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.) Although talk – prompted by stronger economic growth – by several central banks of potential increases in interest rates led to sporadic bouts of weakness in government bond prices, the stubbornly low level of inflation meant that bonds were only modestly down over the period, if at all. Although interest rates did rise in the US and UK, amongst others, it appears that policymakers will make only very gradual changes.

A holding in the M&G Property Portfolio was also a source of positive returns.

Investment activities

Following the very strong performance of US financial stocks, the size of our holdings in these assets was reduced towards the middle of the period to remove some risk from the portfolio. Meanwhile, a position in the FTSE 100 Index was opened. In aggregate, these changes left the fund with slightly lower equity exposure at the end of the period than at the start. However, equities remain our preferred asset class overall.

We also significantly reduced exposure to the US corporate bond market, as this area has rallied to the point where prices have become less attractive. Elsewhere, we added new holdings in Mexican government bonds. We feel the price of these bonds is offering more than adequate compensation for the risk of holding them. We also established a small position in the M&G (Lux) Emerging Markets Hard Currency Bond Fund, giving us broad exposure to emerging bond markets.

We opened a short-term tactical position in 10-year Brazilian government bonds to take advantage of a rise in bond yields resulting from political 'noise' around the potential impeachment of the Brazilian president. We realised profits when this position was unwound a month later.

The fund has a relatively high level of cash. We are comfortable with this for now as we anticipate further market turbulence over the period ahead and feel that having a slightly higher than normal level of cash could prove helpful in responding to both the risks and opportunities this could present.

Outlook

Despite potentially unsettling newsflow about politics and policy action dominating headlines over the review period, global economic indicators have broadly improved. Economic data in the US remains robust, although investors are generally finding this less surprising than in the past. This means there is perhaps less potential for substantial gains in parts of the US market where share prices are already reflecting this positive economic backdrop. Importantly though, for the first time in many years, we are witnessing a synchronised upswing in global growth, with much of the good news coming from outside the US.

M&G Episode Growth Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

In Europe, positive data on factors such as employment seems to be outweighing political risks for now, and the European Central Bank has so far maintained a very supportive policy stance. The UK has seen some slightly weaker figures lately, but these are small changes and not, in our view, signs of a material deterioration in current economic conditions – we are certainly wary of commentary attributing it to the June 2017 general election or ongoing Brexit issues. Meanwhile, in Asia, markets such as South Korea and China are showing sustained growth.

Improving global economic activity and the potential for this to trigger higher inflation means we have observed a shift in tone from developed market central bankers, suggesting increased aversion to the low or negative interest rates they have used in recent years to tackle the aftermath of the 2008 financial crisis. There are also signs of a pick-up in consumer and business sentiment. We believe this is very important as, despite evidence of robust global economic recovery, persistent pessimism has weighed on the sustainability of the growth outlook since 2008. In other words, consumers and businesses need to believe that economic conditions are genuinely improving in order to be encouraged to spend and invest more, in order to stimulate further growth.

For now, we remain positive on company shares overall as we believe, despite the recent rise in prices, these assets continue to offer the best compensation for genuine risk in terms of the compelling prices at which they can be bought, in the context of an improving economic environment. Meanwhile, developed market government bonds remain deeply unattractive, in our view.

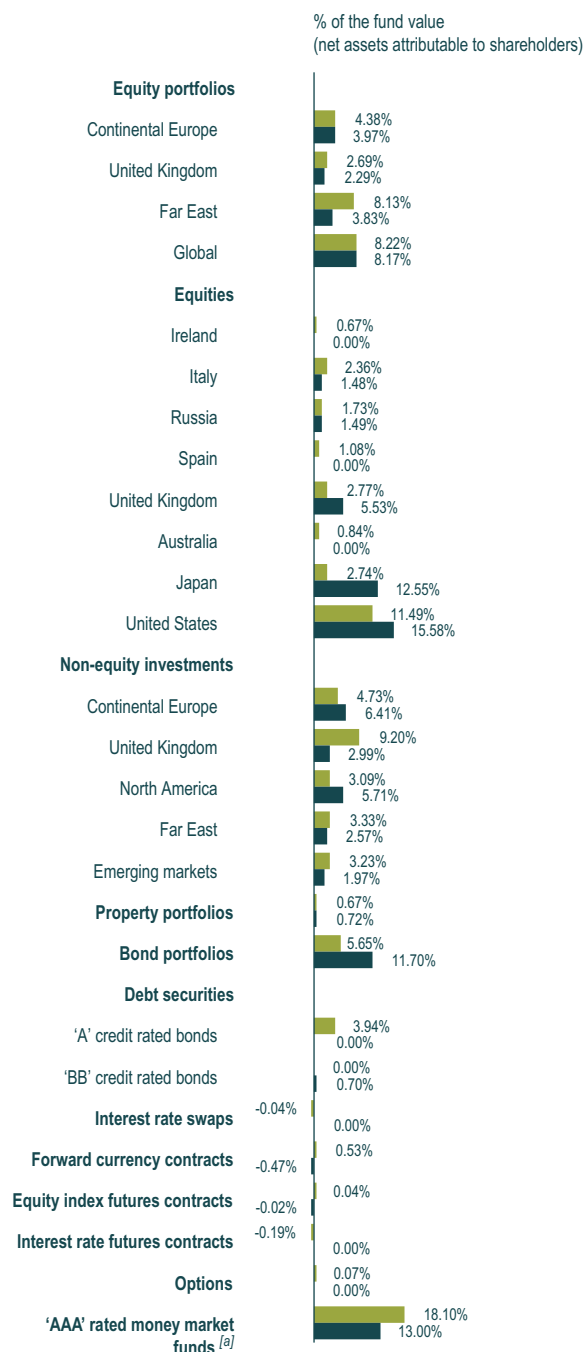
Eric Lonergan & Jenny Rodgers

Co-fund managers

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

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

Classification of investments



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

31 October 2017

31 October 2016

Source: M&G

M&G Episode Growth Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at 31 October Holding	2017 £'000	2017 %	2016 %
Equity portfolios ^[a]	227,089	23.42	18.26
Continental Europe	42,441	4.38	3.97
10,027,450 M&G European Smaller Companies Fund	42,441	4.38	
United Kingdom	26,117	2.69	2.29
6,939,925 M&G Smaller Companies Fund	26,117	2.69	
Far East	78,815	8.13	3.83
2,532,690 M&G Asian Fund	37,523	3.87	
32,830,000 M&G Japan Fund	20,168	2.08	
3,696,000 M&G Japan Smaller Companies Fund	21,124	2.18	
Global	79,716	8.22	8.17
13,138,935 M&G Global Dividend Fund	26,836	2.77	
13,220,596 M&G Recovery Fund Sterling 'C' (Accumulation)	52,880	5.45	
Equities	229,530	23.68	36.63
Ireland	6,477	0.67	0.00
1,091,406 Bank of Ireland	6,477	0.67	
Italy	22,838	2.36	1.48
3,462,518 Banco BPM (formerly Banco Popolare)	9,086	0.94	
208,767 BCA MPS (formerly Banca Monte dei Paschi di Siena)	842	0.09	
5,091,087 Intesa Sanpaolo	12,910	1.33	
Russia	16,813	1.73	1.49
57,909 Lukoil ADR	2,336	0.24	
56,330 Magnit GDR	1,257	0.13	
94,543 Mail.Ru GDR	2,335	0.24	
175,668 MTS PJSC (formerly Mobile TeleSystems) ADR	1,403	0.14	
634,329 Sberbank of Russia ADR	6,934	0.72	
101,711 Yandex N.V.	2,548	0.26	
Spain	10,454	1.08	0.00
2,890,240 Bankia	10,454	1.08	
United Kingdom	26,822	2.77	5.53
14,045,395 Lloyds Banking Group	9,535	0.98	
1,737,062 P2P Global Investments	13,567	1.40	
4,800,000 VPC Speciality Lending Investments	3,720	0.39	
Australia	8,166	0.84	0.00
3,037,751 Fortescue Metals Group	8,166	0.84	
Japan	26,528	2.74	12.55
1,287,800 Mitsubishi UFJ Financial	6,554	0.68	
4,708,200 Mizuho Financial Group	6,440	0.66	
218,200 Sumitomo Mitsui Financial	6,579	0.68	
234,500 Sumitomo Mitsui Trust Holdings	6,955	0.72	
United States	111,432	11.49	15.58
9,200 Alphabet	7,186	0.74	
9,100 Amazon	7,641	0.79	
57,500 Amgen	7,592	0.78	
59,800 Apple	7,542	0.78	
392,500 Bank of America	8,192	0.84	
195,500 Bank of New York Mellon	7,634	0.79	
35,600 Biogen	8,505	0.88	
78,000 Celgene	5,958	0.61	
154,700 Citigroup	8,631	0.89	
59,900 Facebook	8,149	0.84	
107,100 JPMorgan Chase	8,214	0.85	
502,000 Methanex	19,045	1.96	
169,100 Wells Fargo	7,143	0.74	

Portfolio statement (continued)

as at 31 October Holding	2017 £'000	2017 %	2016 %
Non-equity investments	228,546	23.58	19.65
Continental Europe	45,836	4.73	6.41
140,492 db X-trackers DAX ETF	15,934	1.64	
327,459 Lyxor Euro STOXX ETF	10,357	1.07	
212,920 Lyxor IBEX 35 ETF	19,545	2.02	
United Kingdom	89,178	9.20	2.99
7,611,881 iShares FTSE 100 ETF	56,442	5.82	
2,689,482 iShares FTSE MIB ETF	32,736	3.38	
North America	29,938	3.09	5.71
215,287 Source Financials S&P US Select ETF	29,938	3.09	
Far East	32,316	3.33	2.57
542,401 iShares MSCI Korea ETF	20,469	2.11	
93,642 Lyxor China Enterprise ETF	11,847	1.22	
Emerging markets	31,278	3.23	1.97
508,792 iShares MSCI Turkey ETF	10,357	1.07	
1,441,779 Lyxor MSCI India ETF	20,921	2.16	
Property portfolios	6,502	0.67	0.72
565,608 M&G Property Portfolio Sterling Class 'I' (Income)	6,502	0.67	
Bond portfolios ^[a]	54,745	5.65	11.70
545,377 iShares Emerging Markets Local Government Bond UCITS ETF	26,541	2.74	
1,226,000 M&G (Lux) Emerging Markets Hard Currency Bond Fund Euro 'CI' (Accumulation)	9,705	1.00	
744,619 SPDR® Barclays 10+ Year US Corporate Bond ETF	18,499	1.91	
Debt securities	38,198	3.94	0.70
'A' credit rated bonds	38,198	3.94	0.00
MXN 929,290,600 Mexico (United Mexican States) 8% 2023	38,198	3.94	
'BB' credit rated bonds	0	0.00	0.70
Interest rate swaps	(358)	(0.04)	0.00
92,400,000 Pay 2.568% Receive VAR May 2047	(358)	(0.04)	
Forward currency contracts	5,138	0.53	(0.47)
AUD(17,742,346) Sold for £10,902,935 (expires 22.11.17)	632	0.07	
AUD(7,652,182) Sold for £4,536,643 (expires 15.12.17)	111	0.01	
AUD(14,763,931) Sold for £8,743,411 (expires 19.01.18)	217	0.02	
CAD(1,509,725) Sold for £934,126 (expires 22.11.17)	46	0.01	
CAD(2,013,787) Sold for £1,213,198 (expires 15.12.17)	29	0.00	
CAD(3,201,115) Sold for £1,940,128 (expires 19.01.18)	58	0.01	
€(46,854,071) Sold for £42,969,903 (expires 22.11.17)	1,694	0.17	
€(80,186,726) Sold for £71,284,476 (expires 15.12.17)	601	0.06	
€(83,719,430) Sold for £74,832,696 (expires 19.01.18)	962	0.10	
¥(1,478,162,050) Sold for £10,582,110 (expires 22.11.17)	713	0.07	
¥(1,588,564,060) Sold for £10,563,539 (expires 15.12.17)	(48)	0.00	
¥(1,731,883,051) Sold for £11,675,721 (expires 19.01.18)	97	0.01	
MXN73,930,662 Bought for £2,925,398 (expires 19.01.18)	(55)	(0.01)	
MXN(89,261,906) Sold for £3,845,010 (expires 22.11.17)	339	0.04	
SGD(5,612,866) Sold for £3,211,426 (expires 22.11.17)	96	0.01	

M&G Episode Growth Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 31 October Holding	2017 £'000	2017 %	2016 %
Forward currency contracts (continued)			
SGD(6,454,852) Sold for £3,542,923 (expires 15.12.17)	(38)	0.00	
SGD(6,620,960) Sold for £3,699,067 (expires 19.01.18)	28	0.00	
CHF(2,770,825) Sold for £2,244,364 (expires 22.11.17)	143	0.01	
CHF(2,456,494) Sold for £1,893,982 (expires 15.12.17)	29	0.00	
CHF(2,795,465) Sold for £2,169,196 (expires 19.01.18)	44	0.01	
\$39,949,972 Bought for £29,777,190 (expires 22.11.17)	428	0.04	
\$(142,130,475) Sold for £110,101,158 (expires 22.11.17)	2,640	0.27	
\$9,109,165 Bought for INR588,520,358 (expires 22.11.17)	35	0.00	
\$2,559,708 Bought for PHP132,388,096 (expires 22.11.17)	(1)	0.00	
\$5,345,353 Bought for TWD161,189,128 (expires 22.11.17)	(3)	0.00	
\$9,843,013 Bought for KRW11,160,303,377 (expires 22.11.17)	(90)	(0.01)	
\$70,875,092 Bought for £52,795,567 (expires 15.12.17)	751	0.08	
\$(190,072,403) Sold for £140,173,663 (expires 15.12.17)	(3,427)	(0.35)	
\$9,512,379 Bought for INR615,926,556 (expires 15.12.17)	41	0.01	
\$2,831,991 Bought for PHP145,323,618 (expires 15.12.17)	19	0.00	
\$7,000,745 Bought for TWD210,022,352 (expires 15.12.17)	17	0.00	
\$24,804,101 Bought for KRW28,048,477,326 (expires 15.12.17)	(179)	(0.02)	
\$1,838,361 Bought for PHP95,512,039 (expires 19.01.18)	(2)	0.00	
\$(112,904,325) Sold for £85,424,534 (expires 19.01.18)	228	0.02	
\$10,286,089 Bought for INR672,998,263 (expires 19.01.18)	(4)	0.00	
\$6,965,316 Bought for TWD209,516,692 (expires 19.01.18)	(7)	0.00	
\$24,853,869 Bought for KRW28,149,491,461 (expires 19.01.18)	(215)	(0.02)	
\$57,252,316 Bought for HKD443,516,159 (expires 13.04.18)	162	0.02	
\$21,210,862 Bought for CNY150,130,480 (expires 13.04.18)	(953)	(0.10)	

Portfolio statement (continued)

as at 31 October Holding	2017 £'000	2017 %	2016 %
Equity index futures contracts			
2,895 SET50 Index Dec 2017	397	0.04	(0.02)
Interest rate futures contracts			
577 US Ultra Long Treasury Bond Dec 2017	(1,830)	(0.19)	0.00
Options			
177 S&P 500JUN18 2425 PUT	718	0.07	0.00
Portfolio of investments	788,675	81.35	87.31
'AAA' rated money market funds ^[b] ^[c]			
175,426,000 Northern Trust Global Fund - Sterling	175,426	18.10	13.00
Total portfolio (notes 2c & 2d on page 6)	964,101	99.45	100.31
Net other assets / (liabilities)	5,336	0.55	(0.31)
Net assets attributable to shareholders	969,437	100.00	100.00

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

^[a] All holdings in M&G collective investment schemes are in Sterling Class 'A' (Income) shares/units unless otherwise stated.

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

^[c] Cash equivalents.

M&G Episode Growth 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 (4), 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 October	£'000	£'000	£'000
Fund net asset value (NAV)	969,437	876,639	925,288

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 01.11.16 % ^[a]	Three years 03.11.14 % p.a.	Five years 01.11.12 % p.a.	Since launch % p.a.
Sterling^[b]				
Class 'A'	+18.6	+9.3	+9.3	+8.8 ^[c]
Class 'C'	+20.1	+10.7	+10.8	+9.1 ^[d]
Class 'I'	+19.5	+10.2	+10.2	+10.2 ^[e]
Class 'R'	+19.3	+10.0	+10.0	+10.0 ^[e]
Class 'X'	+18.6	+9.3	+9.3	+6.7 ^[f]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

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

^[d] 16 June 2011, the launch date of the share class.

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

^[f] 26 February 1993, the end of the initial offer period of the predecessor unit trust.

M&G Episode Growth 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, comprising 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 depository, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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 October	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.05	0.06	0.05	0.05
Taxes	0.01	0.02	0.00	0.01
Costs before dilution adjustments	0.06	0.08	0.05	0.06
Dilution adjustments ^[c]	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.06	0.08	0.05	0.06
as at 31 October	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.11	0.15	0.18	0.15

^[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 Episode Growth 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.

Historic yields for the current year are calculated as at 10 November 2017.

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	52.64	52.30	50.02
Return before operating charges and after direct portfolio transaction costs	10.56	2.62	4.13
Operating charges	(1.04)	(0.90)	(0.93)
Return after operating charges	9.52	1.72	3.20
Distributions	(1.43)	(1.38)	(0.92)
Closing NAV	60.73	52.64	52.30

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	1.79	1.80	1.78
Return after operating charges	+18.09	+3.29	+6.40
Historic yield ^[c]	2.37	2.61	1.78
Effect on yield of charges offset against capital	1.66	1.50	1.50

Other information			
Closing NAV (£'000)	250,154	225,077	235,981
Closing NAV percentage of total fund NAV (%)	25.80	25.67	25.50
Number of shares	411,892,011	427,593,504	451,198,189
Highest share price (UK p)	61.16	53.11	55.39
Lowest share price (UK p)	51.29	43.52	47.93

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	71.79	69.41	65.24
Return before operating charges and after direct portfolio transaction costs	14.49	3.59	5.39
Operating charges	(1.42)	(1.21)	(1.22)
Return after operating charges	13.07	2.38	4.17
Distributions	(0.67)	(1.85)	(1.20)
Retained distributions	0.67	1.85	1.20
Closing NAV	84.86	71.79	69.41

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.05	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.05	0.05	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	1.79	1.80	1.78
Return after operating charges	+18.21	+3.43	+6.39
Historic yield	0.79	2.56	1.76
Effect on yield of charges offset against capital	0.01	1.50	1.50

Other information			
Closing NAV (£'000)	44,001	42,035	57,528
Closing NAV percentage of total fund NAV (%)	4.54	4.79	6.22
Number of shares	51,849,542	58,549,086	82,877,013
Highest share price (UK p)	84.86	71.91	72.65
Lowest share price (UK p)	69.95	58.08	62.52

Sterling Class 'C' Income share performance

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

The share class was launched on 16 June 2011.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	56.83	55.63	52.47
Return before operating charges and after direct portfolio transaction costs	11.30	2.76	4.29
Operating charges	(0.18)	(0.16)	(0.16)
Return after operating charges	11.12	2.60	4.13
Distributions	(1.42)	(1.40)	(0.97)
Closing NAV	66.53	56.83	55.63

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	0.29	0.29	0.28
Return after operating charges	+19.57	+4.67	+7.87
Historic yield ^[c]	2.19	2.45	1.77
Effect on yield of charges offset against capital	0.16	0.00	0.00

Other information			
Closing NAV (£'000)	13,963	12,934	14,201
Closing NAV percentage of total fund NAV (%)	1.44	1.48	1.53
Number of shares	20,987,238	22,759,352	25,530,253
Highest share price (UK p)	66.98	57.32	58.46
Lowest share price (UK p)	55.39	46.49	50.37

M&G Episode Growth 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 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,280.30	1,261.28	1,195.88
Return before operating charges and after direct portfolio transaction costs	256.04	63.46	99.05
Operating charges	(13.32)	(11.45)	(11.66)
Return after operating charges	242.72	52.01	87.39
Distributions	(33.43)	(32.99)	(21.99)
Closing NAV	1,489.59	1,280.30	1,261.28

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.83	0.95	0.69
Dilution adjustments ^[a]	(0.05)	(0.06)	(0.02)
Total direct portfolio transaction costs	0.78	0.89	0.67

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	0.94	0.94	0.93
Return after operating charges	+18.96	+4.12	+7.31
Historic yield ^[c]	2.29	2.57	1.77
Effect on yield of charges offset against capital	0.81	0.65	0.65

Other information

Closing NAV (£'000)	49,315	44,834	22,059
Closing NAV percentage of total fund NAV (%)	5.09	5.11	2.38
Number of shares	3,310,621	3,501,861	1,748,958
Highest share price (UK p)	1,500.06	1,291.48	1,329.42
Lowest share price (UK p)	1,247.75	1,052.15	1,147.37

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,397.43	1,340.09	1,248.66
Return before operating charges and after direct portfolio transaction costs	280.93	69.61	103.71
Operating charges	(14.69)	(12.27)	(12.28)
Return after operating charges	266.24	57.34	91.43
Distributions	(25.08)	(35.40)	(23.13)
Retained distributions	25.08	35.40	23.13
Closing NAV	1,663.67	1,397.43	1,340.09

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.92	1.02	0.72
Dilution adjustments ^[a]	(0.05)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.87	0.96	0.69

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	0.94	0.94	0.93
Return after operating charges	+19.05	+4.28	+7.32
Historic yield	1.56	2.52	1.77
Effect on yield of charges offset against capital	0.01	0.65	0.65

Other information

Closing NAV (£'000)	46,664	33,196	21,802
Closing NAV percentage of total fund NAV (%)	4.81	3.79	2.36
Number of shares	2,804,861	2,375,523	1,626,877
Highest share price (UK p)	1,664.34	1,399.95	1,395.82
Lowest share price (UK p)	1,361.88	1,123.93	1,197.88

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	127.13	125.50	119.23
Return before operating charges and after direct portfolio transaction costs	25.42	6.34	9.87
Operating charges	(1.60)	(1.39)	(1.40)
Return after operating charges	23.82	4.95	8.47
Distributions	(3.33)	(3.32)	(2.20)
Closing NAV	147.62	127.13	125.50

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.08	0.09	0.07
Dilution adjustments ^[a]	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.08	0.08	0.07

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	1.14	1.15	1.13
Return after operating charges	+18.74	+3.94	+7.10
Historic yield ^[c]	2.35	2.60	1.78
Effect on yield of charges offset against capital	1.01	0.85	0.85

Other information

Closing NAV (£'000)	2,711	1,383	1,261
Closing NAV percentage of total fund NAV (%)	0.28	0.16	0.14
Number of shares	1,836,597	1,087,685	1,004,946
Highest share price (UK p)	148.67	128.25	132.44
Lowest share price (UK p)	123.90	104.63	114.37

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	138.71	133.25	124.39
Return before operating charges and after direct portfolio transaction costs	27.91	6.95	10.34
Operating charges	(1.80)	(1.49)	(1.48)
Return after operating charges	26.11	5.46	8.86
Distributions	(2.15)	(3.56)	(2.30)
Retained distributions	2.15	3.56	2.30
Closing NAV	164.82	138.71	133.25

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.10	0.07
Dilution adjustments ^[a]	(0.01)	(0.01)	0.00
Total direct portfolio transaction costs	0.08	0.09	0.07

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	1.14	1.15	1.13
Return after operating charges	+18.82	+4.10	+7.12
Historic yield	1.39	2.55	1.76
Effect on yield of charges offset against capital	0.01	0.85	0.85

Other information

Closing NAV (£'000)	9,144	262	98
Closing NAV percentage of total fund NAV (%)	0.94	0.03	0.01
Number of shares	5,547,674	189,105	73,571
Highest share price (UK p)	164.96	138.93	138.96
Lowest share price (UK p)	135.18	111.69	119.32

M&G Episode Growth Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 26 February 1993.

for the year to 31 October	2017	2016	2015
Change in NAV per share	UK p	UK p	UK p
Opening NAV	52.48	52.14	49.87
Return before operating charges and after direct portfolio transaction costs	10.53	2.62	4.11
Operating charges	(1.03)	(0.90)	(0.93)
Return after operating charges	9.50	1.72	3.18
Distributions	(1.43)	(1.38)	(0.91)
Closing NAV	60.55	52.48	52.14
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.04	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.04	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.06	0.08	0.05
Operating charges	1.79	1.80	1.78
Return after operating charges	+18.10	+3.30	+6.38
Historic yield ^[c]	2.37	2.61	1.78
Effect on yield of charges offset against capital	1.66	1.50	1.50
Other information			
Closing NAV (£'000)	553,485	516,918	572,358
Closing NAV percentage of total fund NAV (%)	57.10	58.97	61.86
Number of shares	914,086,787	984,993,721	1,097,669,511
Highest share price (UK p)	60.98	52.95	55.22
Lowest share price (UK p)	51.14	43.39	47.79

^[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.

M&G Episode Growth Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 October	Note	2017		2016	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		147,573		15,881
Revenue	5	23,677		25,781	
Expenses	6	(14,690)		(13,524)	
Net revenue / (expense) before taxation		8,987		12,257	
Taxation	7	(448)		(757)	
Net revenue / (expense) after taxation			8,539		11,500
Total return before distributions			156,112		27,381
Distributions	8		(22,028)		(23,634)
Change in net assets attributable to shareholders from investment activities			134,084		3,747

Statement of change in net assets attributable to shareholders

for the year to 31 October	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		876,639		925,288
Amounts received on issue of shares	41,110		62,653	
Amounts paid on cancellation of shares	(83,539)		(117,226)	
		(42,429)		(54,573)
Dilution adjustments		78		117
Change in net assets attributable to shareholders from investment activities (see above)		134,084		3,747
Retained distributions on Accumulation shares		1,059		2,049
Unclaimed distributions		6		11
Closing net assets attributable to shareholders		969,437		876,639

Balance sheet

as at 31 October	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments ^[a]		971,311	885,065
Current assets			
Debtors	9	7,014	14,601
Cash and bank balances	10	12,769	5,363
Total assets		991,094	905,029
Liabilities			
Investment liabilities		(7,210)	(5,683)
Creditors			
Bank overdrafts		0	(1,421)
Overdrawn positions at futures clearing houses and collateral manager		(3,907)	(1,647)
Distribution payable		(6,132)	(5,805)
Other creditors	11	(4,408)	(13,834)
Total liabilities		(21,657)	(28,390)
Net assets attributable to shareholders		969,437	876,639

[a] Includes cash equivalents of £175,426,000 (2016: £113,999,000).

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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.

3 Net capital gains / (losses)

for the year to 31 October	2017 £'000	2016 £'000
Non-derivative securities	184,661	118,562
Derivative contracts	39,116	(109,285)
Currency gains / (losses)	(78,856)	5,974
Management charge rebates taken to capital	2,428	579
Administration charge rebates taken to capital	235	58
Transaction charges	(11)	(7)
Net capital gains / (losses) ^[a]	147,573	15,881

[a] Includes realised gains of £147,202,000 and unrealised losses of £2,281,000 (2016: realised losses of £63,180,000 and unrealised gains of £78,431,000). Certain realised gains and losses in the current year were unrealised in the prior year.

The following fees are borne by the ACD:

	2017 £'000	2016 £'000
Transaction charges	0	2

M&G Episode Growth 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 page 31.

for the year to 31 October	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	129,450		207,114	
Commissions	50	0.04	140	0.07
Taxes	81	0.06	189	0.09
Equities after transaction costs	129,581		207,443	
Debt securities ^[a]	70,196		103,148	
Other transaction types				
Corporate actions	0		6,625	
Collective investment schemes				
Collective investment schemes before transaction costs	265,288		869,606	
Commissions	109	0.04	97	0.01
Collective investment schemes after transaction costs	265,397		869,703	
Total purchases after transaction costs	465,174		1,186,919	
b) Sales				
Equities				
Equities before transaction costs	264,996		112,073	
Commissions	(115)	0.04	(58)	0.05
Taxes	(3)	0.00	(1)	0.00
Equities after transaction costs	264,878		112,014	
Debt securities ^[a]	34,424		247,795	
Other transaction types				
Corporate actions	0		3,584	
Collective investment schemes				
Collective investment schemes before transaction costs	254,480		968,136	
Commissions	(127)	0.05	(153)	0.02
Collective investment schemes after transaction costs	254,353		967,983	
Total sales after transaction costs	553,655		1,331,376	
c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Equities	165	0.02	198	0.03
Collective investment schemes	236	0.02	250	0.03
Derivatives	69	0.01	0	0.00
Total commissions paid	470	0.05	448	0.06
Taxes paid				
Equities	84	0.01	189	0.02
Total direct portfolio transaction costs ^[b]	554	0.06	637	0.08
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread ^[c]		0.11		0.15

^[a] These transaction types do not attract 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 October	2017 £'000	2016 £'000
Administration charge rebates	82	170
Bank interest	25	45
Derivative revenue	1,028	290
Distributions from collective investment schemes: non-taxable	9,059	14,712
Distributions from collective investment schemes: taxable	4,871	3,711
Distributions from collective investment schemes: property income dividends	181	239
Dividends from equity investments: non-taxable	4,408	2,956
Dividends from equity investments: taxable	478	345
Interest distributions	307	245
Interest on debt securities	3,185	2,034
Management charge rebates	53	1,034
Total revenue	23,677	25,781

6 Expenses

for the year to 31 October	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge ^[a]	13,147	12,126
Administration charge ^[b]	1,410	1,298
	14,557	13,424
Payable to the Depositary or associate		
Depositary's charge (including VAT)	52	35
Other expenses		
Audit fee (including VAT)	10	10
Dividend charges	18	13
Interest payable	19	17
Legal fees	0	3
Safe custody charge	34	20
Tax fees (including VAT)	0	2
	81	65
Total expenses	14,690	13,524

^[a] This charge excludes management charge rebates received from M&G Securities Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £2,428,000 (2016: £579,000) and £53,000 (2016: £1,034,000).

^[b] This charge excludes administration charge rebates received from M&G Securities Limited, or an associate, in relation to the administration charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £235,000 (2016: £58,000) and £82,000 (2016: £170,000).

The following fees are borne by the ACD:	2017 £'000	2016 £'000
Payable to the Depositary or associate		
Depositary's charge (including VAT)	0	17
Other expenses		
Safe custody charge	0	10
Total expenses borne by the ACD	0	27

M&G Episode Growth Fund

Financial statements and notes

Notes to the financial statements

7 Taxation

for the year to 31 October	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	448	757
Deferred tax (note 7c)	0	0
Total taxation	448	757
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	8,987	12,257
Corporation tax at 20%	1,797	2,451
Effects of:		
Tax on management and administration charge rebates taken to capital	533	127
Dividends from equity investments: non-taxable	(882)	(591)
Distributions from collective investment schemes: non-taxable	(1,812)	(2,942)
Current year expenses not utilised	374	966
Withholding tax	448	757
Withholding tax expensed	(10)	(5)
Prior year adjustment to expenses not utilised	0	(6)
Total tax charge (note 7a)	448	757
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

The fund has not recognised a deferred tax asset of £4,265,000 (2016: £3,891,000) 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 October	2017		2016	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
First interim	3,720	112	4,115	405
Second interim	4,524	195	4,927	488
Third interim	6,467	370	6,570	623
Final	6,132	382	5,805	533
Total net distributions		21,902		23,466
Income deducted on cancellation of shares		308		346
Income received on issue of shares		(182)		(178)
Distributions		22,028		23,634
Net revenue per statement of total return	8,539		11,500	
Expenses offset against capital	13,594		12,181	
Tax on charges taken to capital	(104)		(48)	
Undistributed income brought forward	0		1	
Undistributed income carried forward	(1)		0	
Distributions		22,028		23,634

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 October	2017 £'000	2016 £'000
Administration charge rebates due	8	15
Amounts receivable on issues of shares	3,390	0
Currency deals outstanding	212	0
Debt security interest receivable	1,124	87
Derivative revenue receivable	191	0
Distributions receivable	227	241
Dividends receivable	443	2,121
Management charge rebates due	59	101
Sales awaiting settlement	880	11,672
Tax recoverable	455	66
Withholding tax recoverable	25	298
Total debtors	7,014	14,601

10 Cash and bank balances

as at 31 October	2017 £'000	2016 £'000
Amounts held at futures clearing houses and collateral manager	10,119	5,273
Cash held as bank balances	2,650	90
Total cash and bank balances	12,769	5,363

11 Other creditors

as at 31 October	2017 £'000	2016 £'000
ACD's annual management charge payable	296	706
Administration charge payable	32	76
Amounts payable on cancellation of shares	3,845	1,231
Currency deals outstanding	211	13
Expenses payable	24	22
Purchases awaiting settlement	0	11,786
Total other creditors	4,408	13,834

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 01.11.16	Movements		Closing 31.10.17
		Issued	Cancelled	
Sterling				
Class 'A' Income	427,593,504	12,975,033	(28,676,526)	411,892,011
Class 'A' Accumulation	58,549,086	419,078	(7,118,622)	51,849,542
Class 'C' Income	22,759,352	1,071,310	(2,843,424)	20,987,238
Class 'I' Income	3,501,861	241,899	(433,139)	3,310,621
Class 'I' Accumulation	2,375,523	673,067	(243,729)	2,804,861
Class 'R' Income	1,087,685	1,312,901	(563,989)	1,836,597
Class 'R' Accumulation	189,105	5,381,000	(22,431)	5,547,674
Class 'X' Income	984,993,721	13,351,155	(84,258,089)	914,086,787

M&G Episode Growth Fund

Financial statements and notes

Notes to the financial statements

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	4.00 ^[a]	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I'	1.00 ^[a]	n/a	0.65
Class 'R'	1.00 ^[a]	n/a	0.85
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.

Amounts paid to M&G Securities Limited in respect of rebate arrangements for the ACD's annual management charge and administration charge are disclosed in notes 3 and 5 to the fund's financial statements. Amounts due at the year end from the ACD, and/or associate, in respect of these rebates are disclosed in note 9.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £45,138,000 (2016: £22,023,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £243,296,000 (2016: £166,359,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 10.72% (2016: 9.01%) 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 October Basis of valuation	Assets	Liabilities	Assets	Liabilities
	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Level 1	504,231	(1,830)	596,047	(186)
Level 2	467,080	(5,380)	289,018	(5,497)
Level 3	0	0	0	0
	971,311	(7,210)	885,065	(5,683)

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 and exposure

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

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

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

for the year to 31 October	2017 %	2016 %
Lowest	3.42	6.64
Highest	7.74	10.46
Average	5.52	8.57

M&G Episode Growth Fund

Financial statements and notes

Notes to the financial statements

20 Credit risk exposure

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

	Swaps £'000	Forward currency contracts £'000	Futures & options £'000
as at 31 October 2017			
Bank of America Merrill Lynch	0	(10)	(715)
Citigroup	(358)	320	0
Goldman Sachs	0	498	0
J.P.Morgan	0	(2,465)	0
State Street Bank	0	591	0
UBS	0	6,204	0
Total	(358)	5,138	(715)
as at 31 October 2016			
Bank of America Merrill Lynch	0	0	(186)
State Street Bank	0	4,190	0
UBS	1,199	0	0
Total	1,199	4,190	(186)

21 Leverage risk exposure

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

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

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

for the year to 31 October	2017	2017	2016	2016
	£'000	%	£'000	%
Lowest	1,284,845	134	1,145,603	134
Highest	2,639,975	271	2,015,474	230
Average	1,806,095	191	1,332,690	155

22 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	01.11.16	31.01.17	01.02.17	31.03.17
Second interim	01.02.17	30.04.17	02.05.17	30.06.17
Third interim	01.05.17	31.07.17	01.08.17	30.09.17
Final	01.08.17	31.10.17	01.11.17	31.12.17

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.

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.0940	0.1547	0.2487	0.2581
Second interim	0.0972	0.2092	0.3064	0.3134
Third interim	0.2217	0.2231	0.4448	0.4257
Final	0.0696	0.3608	0.4304	0.3833

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.0396	0.0000	0.0396	0.3424
Second interim	0.0084	0.1040	0.1124	0.4181
Third interim	0.1201	0.1512	0.2713	0.5716
Final	0.0453	0.2030	0.2483	0.5181

Sterling Class 'C' Income shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.0000	0.2450	0.2450	0.2618
Second interim	0.0169	0.2896	0.3065	0.3223
Third interim	0.0688	0.3756	0.4444	0.4504
Final	0.0990	0.3274	0.4264	0.3614

M&G Episode Growth Fund

Financial statements and notes

Notes to the financial statements

22 Dividend distribution tables (continued)

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017 2016	
	p	p	p	p
First interim	1.9711	3.8585	5.8296	6.2432
Second interim	1.7724	5.5177	7.2901	7.5803
Third interim	4.6199	5.7394	10.3593	10.3224
Final	1.9609	7.9941	9.9550	8.8406

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017 2016	
	p	p	p	p
First interim	1.8522	1.8202	3.6724	6.6286
Second interim	2.4607	2.7705	5.2312	8.0966
Third interim	2.8425	5.5261	8.3686	11.0958
Final	1.2695	6.5356	7.8051	9.5796

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017 2016	
	p	p	p	p
First interim	0.2511	0.3494	0.6005	0.6202
Second interim	0.3723	0.3703	0.7426	0.7538
Third interim	0.4867	0.5664	1.0531	1.0258
Final	0.3902	0.5470	0.9372	0.9247

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017 2016	
	p	p	p	p
First interim	0.3017	0.0000	0.3017	0.6587
Second interim	0.0106	0.4391	0.4497	0.8043
Third interim	0.4124	0.3612	0.7736	1.1018
Final	0.0000	0.6231	0.6231	1.0001

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 October	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017 2016	
	p	p	p	p
First interim	0.0844	0.1636	0.2480	0.2573
Second interim	0.0772	0.2283	0.3055	0.3124
Third interim	0.1957	0.2476	0.4433	0.4244
Final	0.0292	0.4000	0.4292	0.3821

M&G Managed Growth Fund

Authorised Corporate Director's Report

Investment objective

The fund's objective is to achieve long term capital growth.

Investment policy

The fund is an actively managed fund investing predominantly in collective investment schemes in order to provide a well diversified exposure to global equities. The fund may also invest in other collective investment schemes and directly in securities, fixed income assets, warrants, money market instruments, deposits, cash, near cash, and derivatives for the purposes of efficient portfolio management.

Investment approach

The M&G Managed Growth Fund invests primarily in M&G's funds but also in appropriate collectives where M&G does not have a focused capability. The fund may also invest directly in equities and cash. While the fund is theoretically able to invest in other asset classes, the fund manager generally believes that equities represent the best opportunities for long-term growth. The fund is well diversified across capitalisation tiers and international areas. The fund manager will use his judgement to decide on individual fund exposures whilst further diversifying the fund's exposures through investments directly into equities. Close consultation with M&G's fund managers and analyst team on the investment strategies and styles of individual M&G funds is a key part of the decision-making process. Asset allocation decisions will also be considered, and valuation remains core to any decision.

Risk profile

The fund is exposed to company shares directly and through other funds that invest in company shares. It 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.

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 not changed during this period.

Investment review

As at 1 November 2017, for the year ended 31 October 2017

Performance against objective

Between 1 November 2016 (the start of the review period) and 1 November 2017, the M&G Managed Growth Fund produced a positive total return (the combination of income and growth of capital) across all share classes. The fund's return, with each share class generating a total return of at least 18%, was well ahead of a comparative index, the FTSE World Index, which registered a total return of 14.8% over the same period.

The fund has met its objective of achieving capital growth over five years. Performance was positive for all share classes since launch.*

* 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.

Investment performance

The 12 month period under review was characterised by strong gains for many global stockmarkets. Investors' appetite for risk improved steadily through the year, as economic data was generally better than had been expected. Synchronised economic growth now seems to be taking place almost everywhere in the world and this is being reflected in better earnings figures for companies, which is in turn supporting equities (company shares). Several stockmarkets reached record highs during the review period, including the US and UK, while others attained their highest levels for many years, such as Japan, which ended October close to a 20-year high. It appears that investors are now prepared to move on from the fear of recession that caused them to embrace the sort of assets that were more likely to preserve their capital rather than have a chance of increasing it. This is despite the usual crop of worrying events that led to some short-term weakness in share prices, which included concern over tensions between the US and North Korea and rising political populism.

These ups and downs demonstrate why we believe it is important not to panic when stockmarkets suffer falls. This is especially so when price movements appear to be driven by sentiment around events with uncertain outcomes, rather than by factual evidence of a genuine deterioration in economic conditions.

M&G Managed Growth Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

By maintaining exposure to different stockmarkets around the world throughout the period, the fund was able to deliver solid gains. The largest contributor was the position in US financials. We felt this sector had been undervalued in recent years by investors who were focusing more on their memory of the banks' role in the 2008 global financial crisis, than on the facts about the strength of these companies today, including improvements in regulation and management. We also thought that, as economic growth appeared to be increasing in a synchronised manner around the world, interest rates were likely to move higher, to the benefit of banks' profits. As market confidence improved during the review period, previously 'unloved' areas of the market such as the US banking sector were among the strongest performers as other investors began to recognise the good value they offered.

It was not just the US banking sector, however, that performed well during the review period. For instance, European stockmarkets rallied on evidence of better-than-expected economic improvement, together with investor-friendly election results. This proved beneficial for several of M&G's range of European funds held in the fund, including the M&G Pan European Select and M&G Pan European Dividend funds.

The Japanese stockmarket was another to reflect better economic data, as President Abe's reform plans appear to be helping the country out of many years of stagnation. Japanese share prices gained further strength from the president's landslide election victory, which meant supportive policies should continue. The fund's holding in the M&G Japan Fund was another to contribute positively.

On the other hand, the M&G Global Emerging Markets Fund detracted from performance. Although shares in emerging countries generally performed well, as investors were encouraged by higher corporate profits and global economic improvement, the gains were led by a small group of technology stocks. The fund suffered from its focus on value stocks rather than the growth stocks that drove the rally. We maintain exposure to the fund as Matthew Vaight, the manager, is confident that his value-driven approach will generate good returns over the long run.

A stake in the M&G European Select Fund also cost some value, as several of the holdings in what is a concentrated fund announced that profits would not meet expectations. This fund was sold during the review period, meaning that the holding did not take part in the sustained rally of European shares.

Investment activities

The largest adjustment to the positioning of the portfolio was a switch from the M&G European Select Fund into the M&G Pan European Select Fund. The M&G Pan European Select Fund increased diversification as it invests in companies in the UK as well mainland Europe.

We also added a holding in the M&G (Lux) Global Target Return Fund, which was launched by the M&G Multi Asset team in December 2016 as a cautious fund designed to limit the extent to which investors can expect fluctuations in their returns. Managed by Tristan Hanson, the fund invests across global asset classes using the team's tried-and-tested investment philosophy and process, but with a strong focus on risk management. It is a very flexible fund which we feel offers a good opportunity to further diversify the portfolio.

Following good performance, we were able to take some profit from holdings in two US-focused funds, one with an emphasis on financial groups and the other giving general exposure to US companies.

Outlook

It appears that investors are beginning to believe the good news being released about corporate earnings and the global economy. Improving investor sentiment has contributed to a supportive environment for equities that has seen several stockmarkets reach record highs recently. This seems to mark a welcome turning point from the pessimism that has clouded investors' judgement ever since the global financial crisis and enabled them to take potential stumbling blocks, such as interest rate rises and geopolitical tension, in their stride.

Although we must be aware of possible shocks to the market that could be caused by central bankers taking greater and faster action than is currently anticipated, we think this is unlikely. At the moment, it appears that a gradual return to a more normal level of interest rates, together with continued low inflation and robust economic data, should be supportive of our belief in a steadily improving global economy. This encourages our view that equities are likely to perform well in the coming months.

We believe that equities continue to offer the best compensation for genuine risk in the context of an improving economic environment, despite the recent rise in prices. We will, however, be alert to the possibility of investor confidence rising to such an extent that asset prices are pushed to levels that do not seem justified by the facts. As always, we are closely watching changes in prices and the economic background, along with the global newsflow, so as to determine the relative attractiveness of various assets. In order to generate the best returns for our investors, we will continue to invest in those areas of the stockmarket that we believe combine strong growth characteristics with attractive valuations, while diversifying the fund across both sectors and geographies.

David Fishwick
Fund manager

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

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 Managed Growth Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at 31 October Holding	2017 £'000	2017 %	2016 %
Equity portfolios ^[a]	863,197	89.13	85.58
Continental Europe	0	0.00	10.41
Far East	155,331	16.04	16.77
3,970,081 M&G Asian Fund	58,819	6.07	
157,108,464 M&G Japan Fund	96,512	9.97	
Global	592,760	61.21	46.87
70,723,000 M&G Episode Macro Fund Sterling 'S-H' (Accumulation)	99,104	10.23	
4,831,880 M&G Global Basics Fund	43,658	4.51	
29,302,910 M&G Global Emerging Markets Fund	79,200	8.18	
14,952,000 M&G Global Recovery Fund	25,885	2.67	
29,237,621 M&G Global Select Fund	113,774	11.75	
2,220,000 M&G (Lux) Global Target Return Fund Euro 'CI' (Accumulation)	20,203	2.09	
38,825,674 M&G Pan European Dividend Fund	57,912	5.98	
5,822,939 M&G Pan European Select Fund Euro 'A' (Accumulation)	106,368	10.98	
32,039,732 M&G Recovery Fund Sterling 'C' (Income)	46,656	4.82	
North America	115,106	11.88	11.53
1,495,000 M&G North American Dividend Fund	27,278	2.81	
69,133,968 M&G North American Value Fund	87,828	9.07	
Non-equity investments	88,302	9.12	13.06
North America	88,302	9.12	13.06
635,005 Source Financials S&P US Select ETF	88,302	9.12	
Forward currency contracts	4,363	0.45	(0.14)
AUD2,929,834 Bought for £1,702,808 (expires 15.12.17)	(8)	0.00	
AUD(4,486,651) Sold for £2,757,114 (expires 22.11.17)	160	0.02	
AUD(5,030,201) Sold for £2,982,185 (expires 15.12.17)	73	0.01	
AUD(4,524,036) Sold for £2,679,199 (expires 19.01.18)	67	0.01	
CZK52,218,106 Bought for £1,847,121 (expires 22.11.17)	(55)	(0.01)	
CZK101,434,113 Bought for £3,422,781 (expires 15.12.17)	62	0.01	
CZK61,081,090 Bought for £2,129,745 (expires 19.01.18)	(28)	(0.01)	
CZK(72,569,002) Sold for £2,473,929 (expires 15.12.17)	(19)	0.00	
€(30,669,303) Sold for £28,280,410 (expires 22.11.17)	1,263	0.13	
€(28,810,824) Sold for £25,612,275 (expires 15.12.17)	216	0.02	
€(21,559,200) Sold for £19,270,712 (expires 19.01.18)	248	0.02	
HKD27,979,042 Bought for £2,789,369 (expires 22.11.17)	(77)	(0.01)	
HKD27,755,880 Bought for £2,627,029 (expires 15.12.17)	63	0.01	
HKD46,631,223 Bought for £4,537,259 (expires 19.01.18)	(20)	0.00	
¥(2,446,957,544) Sold for £17,517,683 (expires 22.11.17)	1,180	0.12	
¥(2,704,730,697) Sold for £17,985,758 (expires 15.12.17)	(82)	(0.01)	
¥(2,839,131,051) Sold for £19,140,381 (expires 19.01.18)	159	0.02	

Portfolio statement (continued)

as at 31 October Holding	2017 £'000	2017 %	2016 %
Forward currency contracts (continued)			
PLN6,979,960 Bought for £1,445,890 (expires 15.12.17)	(1)	0.00	
CHF(8,265,325) Sold for £6,694,902 (expires 22.11.17)	426	0.04	
CHF(6,517,175) Sold for £5,024,807 (expires 15.12.17)	77	0.01	
CHF(3,742,093) Sold for £2,903,751 (expires 19.01.18)	59	0.01	
TWD92,327,881 Bought for \$3,050,145 (expires 15.12.17)	13	0.00	
TWD169,918,360 Bought for \$5,646,844 (expires 19.01.18)	7	0.00	
THB62,111,384 Bought for \$1,876,477 (expires 19.01.18)	(5)	0.00	
\$6,528,784 Bought for TWD196,875,482 (expires 22.11.17)	(3)	0.00	
\$9,796,281 Bought for TWD293,888,443 (expires 15.12.17)	24	0.00	
\$13,576,289 Bought for TWD408,374,787 (expires 19.01.18)	(14)	0.00	
\$(77,972,421) Sold for £60,670,759 (expires 22.11.17)	1,718	0.18	
\$(95,361,971) Sold for £70,720,093 (expires 15.12.17)	(1,326)	(0.14)	
\$(91,405,577) Sold for £69,158,368 (expires 19.01.18)	185	0.02	
CNY18,144,150 Bought for \$2,724,756 (expires 19.01.18)	1	0.00	
Total portfolio (notes 2c & 2d on page 6)	955,862	98.70	98.50
Net other assets / (liabilities)	12,572	1.30	1.50
Net assets attributable to shareholders	968,434	100.00	100.00

^[a] All holdings in M&G collective investment schemes are in Sterling Class 'A' (Income) shares unless otherwise stated.

Top ten portfolio transactions

for the year to 31 October 2017

Purchases ^[a]	£'000
M&G Pan European Select Fund Euro 'A' (Accumulation)	90,264
M&G (Lux) Global Target Return Fund Euro 'CI' (Accumulation)	19,505
M&G Episode Macro Fund Sterling 'S-H' (Accumulation)	7,793
Source Financials S&P US Select ETF	1,346
Source S&P 500 ETF (Income)	384
Lyxor ETF STOXX Euro 600	155
Total purchases	119,447
Sales ^[a]	£'000
M&G European Select Fund Sterling 'A' (Income)	94,535
Source Financials S&P US Select ETF	31,617
Source S&P 500 ETF (Income)	23,479
M&G Asian Fund	13,655
M&G Global Emerging Markets Fund	9,669
Total sales	172,955

^[a] All holdings in M&G collective investment schemes are in Sterling Class 'A' (Income) shares unless otherwise stated.

M&G Managed Growth 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 (4), 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 October	£'000	£'000	£'000
Fund net asset value (NAV)	968,434	902,119	816,525

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 01.11.16 % ^[a]	Three years 03.11.14 % p.a.	Five years 01.11.12 % p.a.	Since launch % p.a.
Sterling^[b]				
Class 'A'	+18.6	+14.4	+9.4	+10.9 ^[c]
Class 'C'	+19.6	+15.5	+10.6	+21.4 ^[d]
Class 'I'	+18.9	+14.8	+9.9	+10.6 ^[e]
Class 'R'	+18.7	+14.6	+9.7	+10.4 ^[e]
Class 'X'	+18.3	+14.2	+9.3	+7.8 ^[f]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

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

^[d] 21 June 2012, the launch date of the share class.

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

^[f] 28 October 1994, the end of the initial offer period of the predecessor unit trust.

M&G Managed Growth 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, comprising 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 depository, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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 October	2017	2016	2015	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.00	0.01	0.02	0.01
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.00	0.01	0.02	0.01
Dilution adjustments ^[c]	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.02	0.01
as at 31 October	2017	2016	2015	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.02	0.02	0.02	0.02

^[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 Managed Growth 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.

Historic yields for the current year are calculated as at 10 November 2017.

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	96.01	76.13	77.16
Return before operating charges and after direct portfolio transaction costs	18.61	21.71	0.75
Operating charges	(1.80)	(1.45)	(1.37)
Return after operating charges	16.81	20.26	(0.62)
Distributions	(2.10)	(0.38)	(0.41)
Closing NAV	110.72	96.01	76.13

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.02

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	1.72	1.79	1.73
Return after operating charges	+17.51	+26.61	-0.80
Historic yield ^[c]	1.90	0.40	0.55
Effect on yield of charges offset against capital	1.65	0.00	0.00

Other information			
Closing NAV (£'000)	72,236	65,055	58,979
Closing NAV percentage of total fund NAV (%)	7.46	7.21	7.22
Number of shares	65,240,872	67,761,447	77,467,271
Highest share price (UK p)	112.49	96.79	86.23
Lowest share price (UK p)	92.44	67.77	70.77

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	103.98	81.89	82.55
Return before operating charges and after direct portfolio transaction costs	20.57	23.64	0.80
Operating charges	(1.95)	(1.55)	(1.46)
Return after operating charges	18.62	22.09	(0.66)
Distributions	(0.76)	(0.60)	(0.50)
Retained distributions	0.76	0.60	0.50
Closing NAV	122.60	103.98	81.89

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.02

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	1.72	1.80	1.72
Return after operating charges	+17.91	+26.98	-0.80
Historic yield	0.62	0.59	0.62
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information			
Closing NAV (£'000)	36,002	35,062	68,740
Closing NAV percentage of total fund NAV (%)	3.72	3.89	8.42
Number of shares	29,364,496	33,720,126	83,938,870
Highest share price (UK p)	122.75	104.43	92.29
Lowest share price (UK p)	100.12	72.97	75.88

Sterling Class 'C' Income share performance

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

The share class was launched on 21 June 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	96.15	76.19	77.24
Return before operating charges and after direct portfolio transaction costs	18.40	21.63	0.52
Operating charges	(0.23)	(0.24)	(0.19)
Return after operating charges	18.17	21.39	0.33
Distributions	(1.97)	(1.43)	(1.38)
Closing NAV	112.35	96.15	76.19

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.02

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	0.22	0.29	0.23
Return after operating charges	+18.90	+28.07	+0.43
Historic yield ^[c]	1.76	1.51	1.84
Effect on yield of charges offset against capital	0.15	0.00	0.00

Other information			
Closing NAV (£'000)	241,667	228,020	205,852
Closing NAV percentage of total fund NAV (%)	24.96	25.27	25.21
Number of shares	215,092,523	237,161,662	270,190,021
Highest share price (UK p)	114.05	97.48	86.80
Lowest share price (UK p)	92.58	68.08	71.14

M&G Managed Growth 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 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,362.86	1,080.32	1,095.28
Return before operating charges and after direct portfolio transaction costs	262.44	307.98	9.11
Operating charges	(14.38)	(12.00)	(11.24)
Return after operating charges	248.06	295.98	(2.13)
Distributions	(27.86)	(13.44)	(12.83)
Closing NAV	1,583.06	1,362.86	1,080.32
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.10	0.24
Dilution adjustments ^[a]	(0.01)	(0.03)	(0.02)
Total direct portfolio transaction costs	0.03	0.07	0.22
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	0.97	1.04	1.00
Return after operating charges	+18.20	+27.40	-0.19
Historic yield ^[c]	1.76	1.00	1.21
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (£'000)	54,435	46,997	18,093
Closing NAV percentage of total fund NAV (%)	5.62	5.21	2.22
Number of shares	3,438,572	3,448,411	1,674,792
Highest share price (UK p)	1,607.04	1,378.20	1,227.66
Lowest share price (UK p)	1,312.22	963.87	1,006.80

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,431.77	1,122.99	1,125.66
Return before operating charges and after direct portfolio transaction costs	276.24	321.24	8.86
Operating charges	(15.13)	(12.46)	(11.53)
Return after operating charges	261.11	308.78	(2.67)
Distributions	(16.26)	(14.01)	(13.20)
Retained distributions	16.26	14.01	13.20
Closing NAV	1,692.88	1,431.77	1,122.99
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.10	0.25
Dilution adjustments ^[a]	(0.01)	(0.03)	(0.02)
Total direct portfolio transaction costs	0.04	0.07	0.23
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	0.97	1.04	0.99
Return after operating charges	+18.24	+27.50	-0.24
Historic yield	0.96	0.99	1.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	70,349	64,943	33,445
Closing NAV percentage of total fund NAV (%)	7.26	7.20	4.10
Number of shares	4,155,571	4,535,902	2,978,212
Highest share price (UK p)	1,694.83	1,437.68	1,261.75
Lowest share price (UK p)	1,378.59	1,002.03	1,039.41

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	136.32	108.03	109.53
Return before operating charges and after direct portfolio transaction costs	26.32	30.82	0.95
Operating charges	(1.82)	(1.48)	(1.39)
Return after operating charges	24.50	29.34	(0.44)
Distributions	(2.82)	(1.05)	(1.06)
Closing NAV	158.00	136.32	108.03
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	1.22	1.29	1.24
Return after operating charges	+17.97	+27.16	-0.40
Historic yield ^[c]	1.78	0.78	0.99
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (£'000)	1,765	651	502
Closing NAV percentage of total fund NAV (%)	0.18	0.07	0.06
Number of shares	1,117,196	477,357	464,397
Highest share price (UK p)	160.41	137.68	122.65
Lowest share price (UK p)	131.25	96.32	100.61

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 October Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	141.89	111.52	112.02
Return before operating charges and after direct portfolio transaction costs	27.38	31.89	0.90
Operating charges	(1.83)	(1.52)	(1.40)
Return after operating charges	25.55	30.37	(0.50)
Distributions	(1.22)	(1.09)	(1.07)
Retained distributions	1.22	1.09	1.07
Closing NAV	167.44	141.89	111.52
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	1.22	1.29	1.20
Return after operating charges	+18.01	+27.23	-0.45
Historic yield	0.73	0.78	0.98
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	7,771	80	98
Closing NAV percentage of total fund NAV (%)	0.80	0.01	0.01
Number of shares	4,641,147	56,533	88,428
Highest share price (UK p)	167.64	142.49	125.44
Lowest share price (UK p)	136.62	99.44	103.26

M&G Managed Growth Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 28 October 1994.

for the year to 31 October	2017	2016	2015
Change in NAV per share	UK p	UK p	UK p
Opening NAV	95.63	75.79	76.85
Return before operating charges and after direct portfolio transaction costs	18.58	21.68	0.74
Operating charges	(1.79)	(1.44)	(1.37)
Return after operating charges	16.79	20.24	(0.63)
Distributions	(2.13)	(0.40)	(0.43)
Closing NAV	110.29	95.63	75.79
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.02
Operating charges	1.72	1.79	1.73
Return after operating charges	+17.56	+26.71	-0.82
Historic yield ^[c]	1.93	0.43	0.58
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (£'000)	484,209	461,311	430,816
Closing NAV percentage of total fund NAV (%)	50.00	51.14	52.76
Number of shares	439,039,995	482,389,656	568,427,671
Highest share price (UK p)	112.07	96.42	85.91
Lowest share price (UK p)	92.07	67.51	70.50

^[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 Managed Growth Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 October	Note	2017		2016	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		150,097		193,278
Revenue	5	18,191		16,801	
Expenses	6	(11,257)		(9,626)	
Net revenue / (expense) before taxation		6,934		7,175	
Taxation	7	0		(4)	
Net revenue / (expense) after taxation			6,934		7,171
Total return before distributions			157,031		200,449
Distributions	8		(17,408)		(7,346)
Change in net assets attributable to shareholders from investment activities			139,623		193,103

Statement of change in net assets attributable to shareholders

for the year to 31 October	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		902,119		816,525
Amounts received on issue of shares	39,148		62,886	
Amounts paid on cancellation of shares	(113,430)		(171,301)	
		(74,282)		(108,415)
Dilution adjustments		19		38
Change in net assets attributable to shareholders from investment activities (see above)		139,623		193,103
Retained distributions on Accumulation shares		954		866
Unclaimed distributions		1		2
Closing net assets attributable to shareholders		968,434		902,119

Balance sheet

as at 31 October	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		957,500	890,417
Current assets			
Debtors	9	3,052	1,070
Cash and bank balances	10	25,283	18,811
Total assets		985,835	910,298
Liabilities			
Investment liabilities			
		(1,638)	(1,852)
Creditors			
Distribution payable		(12,451)	(4,595)
Other creditors	11	(3,312)	(1,732)
Total liabilities		(17,401)	(8,179)
Net assets attributable to shareholders		968,434	902,119

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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.

3 Net capital gains / (losses)

for the year to 31 October	2017 £'000	2016 £'000
Non-derivative securities	115,575	199,576
Derivative contracts	24,728	(8,269)
Currency gains / (losses)	(119)	(359)
Management charge rebates taken to capital	8,953	2,100
Administration charge rebates taken to capital	962	230
Transaction charges	(2)	0
Net capital gains / (losses) [a]	150,097	193,278

[a] Includes realised gains of £66,274,000 and unrealised gains of £73,910,000 (2016: realised gains of £69,727,000 and unrealised gains of £121,221,000). Certain realised gains and losses in the current year were unrealised in the prior year.

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 45.

for the year to 31 October	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Collective investment schemes				
Collective investment schemes before transaction costs	119,447		206,914	
Commissions	0	0.00	12	0.01
Total purchases after transaction costs	119,447		206,926	
b) Sales				
Collective investment schemes				
Collective investment schemes before transaction costs	172,983		322,455	
Commissions	(28)	0.02	(56)	0.02
Total sales after transaction costs	172,955		322,399	
c) Direct portfolio transaction costs				
Commissions paid				
Collective investment schemes	28	0.00	68	0.01
Total direct portfolio transaction costs [a]	28	0.00	68	0.01
d) Indirect portfolio transaction costs				
Portfolio dealing spread [b]		0.02		0.02

[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 Managed Growth Fund

Financial statements and notes

Notes to the financial statements

5 Revenue

for the year to 31 October	2017 £'000	2016 £'000
Administration charge rebates	277	708
Bank interest	3	4
Distributions from collective investment schemes: non-taxable	15,065	9,267
Dividends from equity investments: non-taxable	(37)	66
Management charge rebates	2,883	6,756
Total revenue	18,191	16,801

6 Expenses

for the year to 31 October	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge ^[a]	9,767	8,356
Administration charge ^[b]	1,426	1,221
	11,193	9,577
Payable to the Depositary or associate		
Depositary's charge (including VAT)	53	35
Other expenses		
Audit fee (including VAT)	9	9
Interest payable	2	0
Safe custody charge	0	2
Tax fees (including VAT)	0	3
	11	14
Total expenses	11,257	9,626

^[a] This charge excludes management charge rebates received from M&G Securities Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £8,953,000 (2016: £2,100,000) and £2,883,000 (2016: £6,756,000).

^[b] This charge excludes administration charge rebates received from M&G Securities Limited, or an associate, in relation to the administration charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £962,000 (2016: £230,000) and £277,000 (2016: £708,000).

The following fees are borne by the ACD:	2017 £'000	2016 £'000
Payable to the Depositary or associate		
Depositary's charge (including VAT)	0	16
Other expenses		
Safe custody charge	0	1
Total expenses borne by the ACD	0	17

7 Taxation

for the year to 31 October	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax recoverable: previously withheld at source	0	4
Deferred tax (note 7c)	0	0
Total taxation	0	4
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	6,934	7,175
Corporation tax at 20%	1,387	1,435
Effects of:		
Tax on management and administration charge rebates taken to capital	1,983	466
Dividends from equity investments: non-taxable	7	(13)
Distributions from collective investment schemes: non-taxable	(3,013)	(1,854)
Current year expenses not utilised	(364)	(34)
Withholding tax recoverable: previously withheld at source	0	4
Total tax charge (note 7a)	0	4
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

The fund has not recognised a deferred tax asset of £4,127,000 (2016: £4,491,000) 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 October	2017		2016	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
Interim	3,655	0	1,593	240
Final	12,451	954	4,595	626
Total net distributions		17,060		7,054
Income deducted on cancellation of shares		471		372
Income received on issue of shares		(123)		(80)
Distributions		17,408		7,346
Net revenue / (expense) per statement of total return	6,934		7,171	
Expenses offset against capital	9,966		0	
Tax on charges taken to capital	507		175	
Undistributed income brought forward	1		1	
Undistributed income carried forward	0		(1)	
Distributions		17,408		7,346

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 October	2017 £'000	2016 £'000
Administration charge rebates due	29	63
Amounts receivable from the Prudential Managed Growth Trust	0	68
Amounts receivable on issues of shares	2,226	54
Management charge rebates due	271	603
Sales awaiting settlement	250	0
Withholding tax recoverable	276	282
Total debtors	3,052	1,070

M&G Managed Growth Fund

Financial statements and notes

Notes to the financial statements

10 Cash and bank balances

as at 31 October	2017 £'000	2016 £'000
Amounts held at futures clearing houses and collateral manager	1,380	0
Cash held as bank balances	23,903	18,811
Total cash and bank balances	25,283	18,811

11 Other creditors

as at 31 October	2017 £'000	2016 £'000
ACD's annual management charge payable	221	535
Administration charge payable	32	78
Amounts payable on cancellation of shares	3,048	1,106
Expenses payable	11	13
Total other creditors	3,312	1,732

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 01.11.16	Movements		Closing 31.10.17
		Issued	Cancelled	
Sterling				
Class 'A' Income	67,761,447	4,570,638	(7,091,213)	65,240,872
Class 'A' Accumulation	33,720,126	576,358	(4,931,988)	29,364,496
Class 'C' Income	237,161,662	6,159,652	(28,228,791)	215,092,523
Class 'I' Income	3,448,411	395,172	(405,011)	3,438,572
Class 'I' Accumulation	4,535,902	432,520	(812,851)	4,155,571
Class 'R' Income	477,357	808,253	(168,414)	1,117,196
Class 'R' Accumulation	56,533	6,896,000	(2,311,386)	4,641,147
Class 'X' Income	482,389,656	2,527,200	(45,876,861)	439,039,995

14 Charging structure

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

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

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

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

15 Related parties

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

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

Amounts paid to M&G Securities Limited in respect of rebate arrangements for the ACD's annual management charge and administration charge are disclosed in notes 3 and 5. Amounts due at the year end from the ACD, and/or associate, in respect of these rebates are disclosed in note 9.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £235,867,000 (2016: £376,243,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £863,197,000 (2016: £772,012,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 29.51% (2016: 5.98%) 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 Managed Growth Fund

Financial statements and notes

Notes to the financial statements

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 October	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2017	2017	2016	2016
	£'000	£'000	£'000	£'000
Level 1	88,302	0	117,809	0
Level 2	869,198	(1,638)	772,608	(1,852)
Level 3	0	0	0	0
	957,500	(1,638)	890,417	(1,852)

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 £47,793,000 (2016: £44,428,000). 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 held to mitigate credit risk.

	Forward currency contracts £'000
as at 31 October 2017	
Bank of America Merrill Lynch	(75)
BNP Paribas	(28)
Citigroup	427
J.P.Morgan	(967)
State Street Bank	1,857
UBS	3,149
Total	4,363
as at 31 October 2016	
State Street Bank	(1,256)
Total	(1,256)

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 Managed Growth Fund

Financial statements and notes

Notes to the financial statements

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	01.11.16	30.04.17	02.05.17	30.06.17
Final	01.05.17	31.10.17	01.11.17	31.12.17

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.

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	0.1633	0.3028	0.4661	0.0267
Final	1.1385	0.4957	1.6342	0.3552

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	0.0000	0.0000	0.0000	0.1029
Final	0.4456	0.3111	0.7567	0.4965

Sterling Class 'C' Income shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	0.3227	0.0832	0.4059	0.4810
Final	1.2598	0.3081	1.5679	0.9525

Sterling Class 'I' Income shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	2.7746	2.9501	5.7247	3.7621
Final	12.7904	9.3411	22.1315	9.6748

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	0.0000	0.0000	0.0000	3.9047
Final	13.2616	2.9938	16.2554	10.1096

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	0.1094	0.4765	0.5859	0.2660
Final	1.6940	0.5357	2.2297	0.7839

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	0.0000	0.0000	0.0000	0.2799
Final	0.0000	1.2203	1.2203	0.8148

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 31 October	Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
	p	p	p	p
Interim	0.3339	0.1451	0.4790	0.0361
Final	1.3506	0.2954	1.6460	0.3644

M&G Managed Growth Fund

Financial statements and notes

This page is intentionally blank

M&G Investment Funds (4)

Other regulatory disclosures

Alternative Investment Fund Managers Directive (AIFMD)

In accordance with the AIFMD we are required to report to investors on the 'leverage' of the fund and any 'special arrangements' that exist in relation to the fund's assets.

Leverage

Under AIFMD, leverage is defined as any method by which the fund increases its exposure through borrowing or the use of derivatives. This exposure must be calculated in two ways, the 'gross method' and the 'commitment method'. The fund must not exceed maximum exposures under both methods.

'Gross method' is calculated as the sum of all positions of the fund (both positive and negative), that is, all eligible assets, liabilities and derivatives, including derivatives held for risk reduction purposes.

'Commitment method' exposure is also calculated as the sum of all positions of the fund (both positive and negative), but after netting off derivative and security positions as specified by AIFMD rules.

Therefore as at 31 October 2017 the total amount of leverage is as follows:

Gross method:

M&G Episode Allocation Fund	123.9%
M&G Episode Growth Fund	205.2%

Commitment method:

M&G Episode Allocation Fund	98.2%
M&G Episode Growth Fund	106.4%

The M&G Managed Growth Fund does not use leverage to increase its exposure and this position was unchanged throughout the period ending 31 October 2017.

Special arrangements

A 'Special Arrangement' is an arrangement in relation to fund assets that results in an investor or group of investors receiving different redemption rights to those generally available to investors in a given share class.

The fund had no assets subject to special arrangements for the period ending 31 October 2017.

Remuneration

In line with the requirements of the Alternative Investment Fund Managers Directive ('AIFMD'), M&G Securities Limited is subject to a remuneration policy which is consistent with the principles outlined in the European Securities and Markets Authority guidelines on sound remuneration policies under the AIFMD.

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 alternative investment funds it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here: www.mandg.com/en/corporate/about-mg/our-people.

M&G Securities Limited in its capacity as the Alternative Investment Fund Manager (the 'AIFM') of M&G Investment Funds (4) has delegated portfolio management services to M&G Investment Management Limited (the 'Delegate').

The ESMA Guidelines require the AIFM to ensure that, to the extent portfolio management activities are delegated by the AIFM, the Delegate is itself subject to remuneration provisions of equivalent effect to those contained in the AIFMD. M&G Investment Management Limited is subject to the Markets in Financial Instruments Directive ('MiFID') which is considered by the Financial Conduct Authority to be equally effective.

The AIFM is required under the AIFMD to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated. Members of staff and senior management typically provide both AIFMD and non-AIFMD related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to the AIFM is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2016, aggregate remuneration of £4,482,473 was paid to individuals whose actions may have a material impact on the risk profile of M&G Securities Limited, of which £277,179 related to senior management.

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.

Glossary

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

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

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

Share class: Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Share class hedging: Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Short position: A way for a fund manager to express his or her view that the market might fall in value.

Short selling: This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

Short-dated corporate bonds: Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds: Fixed income securities issued by governments and repaid over relatively short periods.

Sovereign debt: Debt of a government. Also referred to as government bonds.

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

Top-down investing: An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

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

Treasuries: Fixed income securities issued by the US government.

Triple A or AAA rated: The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

UCITS: Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Unconstrained: The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

Underlying value: The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

Underlying yield: Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

Underweight: If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

Unit trust: A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Unit/share type: Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

Valuation: The worth of an asset or company based on its current price.

Volatile: When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

Volatility: The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

Warrant: A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

Yield: This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (equity): Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (bonds): This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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

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

Notes

