



M&G Investment Funds (1)

Interim Long Report and unaudited Financial Statements
for the six months ended 28 February 2017



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M&G Investment Funds (1)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (1) presents its Interim Long Report and unaudited Financial Statements for the six months ended 28 February 2017.

The unaudited financial statements of M&G Investment Funds (1) and the investment report and unaudited financial statements and notes of each sub-fund are presented in their individual sections of this report as set out in the contents page.

Please note that we have included an explanation of key investment terminology in the 'Glossary' (at the back of this report).

Company information

M&G Investment Funds (1) is an umbrella Open-Ended Investment Company (OEIC) and contains 12 sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 6 June 2001 and was launched on 1 November 2001, following the conversion of a series of authorised unit trusts.

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

As at 28 February 2017, none of the funds held shares of the other funds within this OEIC.

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

Fund managers

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

M&G Asian Fund

Matthew Vaight

M&G European Index Tracker Fund

Nigel Booth

M&G European Select Fund

John William Olsen

M&G European Smaller Companies Fund

Michael Oliveros

M&G Global Basics Fund

Jamie Horvat & Randeep Somel

M&G Global Leaders Fund

Aled Smith

M&G Global Select Fund

John William Olsen

M&G Japan Fund

Johan Du Preez

M&G Japan Smaller Companies Fund

Johan Du Preez

M&G North American Dividend Fund

John Weavers

M&G North American Value Fund

Daniel White

M&G Pan European Select Fund

John William Olsen

ACD

M&G Securities Limited,
Laurence Pountney Hill, London EC4R 0HH, UK
Telephone: 0800 390 390 (UK only)

(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of the Tax Incentivised Savings Association.)

Directors of the ACD

W J Nott (Chief Executive),
G N Cotton, P R Jelfs, G W MacDowall, L J Mumford

Investment manager

M&G Investment Management Limited,
Laurence Pountney Hill, London EC4R 0HH, UK
Telephone: +44 (0)20 7626 4588
(Authorised and regulated by the Financial Conduct Authority)

Registrar

International Financial Data Services (UK) Limited,
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK
(Authorised and regulated by the Financial Conduct Authority)

Depositary

National Westminster Bank Plc, Trustee & Depositary Services,
Younger Building, 3 Redheughs Avenue, Edinburgh EH12 9RH, UK
(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority)

Independent auditor

Ernst & Young LLP
Ten George Street, Edinburgh EH2 2DZ, UK

Important information

Please note that with effect from 16 December 2016:

- We have discounted the initial charge to zero on all new investments into Sterling shares 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 (1)

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.

Customer services and administration for non-UK clients:

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

Telephone: +49 69 1338 6767
Email: iocs@mandg.co.uk

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

Austrian paying and information agent:

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

Belgian financial agent:

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

Danish representative agent:

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

French centralising agent:

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

German information agent:

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

Greek paying agent and distributor:

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

Irish facilities agent:

Société Générale SA, Dublin Branch,
3rd Floor IFSC House – The IFSC, Dublin 1, Ireland

Italian paying agents:

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

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

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

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

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

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

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

Luxembourg paying and information agent:

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

Portuguese distributor:

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

Spanish representative:

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

Swedish paying agent:

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

Swiss paying agent and representative:

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

For Hong Kong investors

The following funds are not authorised in Hong Kong and not available to Hong Kong residents:

M&G Asian Fund
M&G European Index Tracker Fund
M&G European Select Fund
M&G European Smaller Companies Fund
M&G Global Select Fund
M&G Japan Fund
M&G Japan Smaller Companies Fund
M&G North American Value Fund

M&G Investment Funds (1)

Authorised Corporate Director's Report

Authorised Corporate Director's Responsibilities

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

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

M&G Investment Funds (1)

Financial statements and notes

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

Notes to the financial statements

Accounting policies

The financial statements of each fund have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014.

With effect from 1 September 2016, each fund amended its distribution policy in respect of the treatment of certain charges. This is set out in the notes to each fund's financial statements.

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

11 April 2017

M&G Asian Fund

Authorised Corporate Director's Report

Investment objective and policy

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

Investment approach

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

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

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

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

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

Risk profile

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

Asia (ex Japan) is a region that is regarded as having emerging economies. Hence, the fund's focus on Asia may result in greater volatility compared to a fund that invests mainly in the securities of companies in developed countries. The reasons for this greater volatility include: the financial infrastructure in emerging markets is typically less mature, the regulatory systems and disclosure standards are less developed, and adverse market and political circumstances are more likely to occur in these markets. Diversification across countries, industries and market capitalisation is therefore key in

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

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Asian Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.^(a) Returns from the US dollar share classes were more modest than the sterling and euro share classes due to the relative strength of the US dollar.

The fund's returns in all share classes were ahead of a comparative index, the MSCI Asia Pacific ex Japan Index. Returns for the index were 12.4%, 14.5% and 6.0% in euros, sterling and US dollars, respectively, over the six months.

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

Investment performance

Asian stockmarkets rose over the six months under review, taking their lead from the US where stockmarkets climbed to record highs following the surprise election of Donald Trump as US president in November 2016. Company share prices were supported by optimism that Trump's proposed policies such as tax cuts and increased infrastructure spending would lead to stronger global growth and boost corporate profits.

Initially, however, share prices of Asian companies fell as Trump's victory was deemed to be bad news for the region. In particular, investors worried that the introduction of protectionist policies in the US would hurt global trade and the numerous export-focused businesses in Asia. There were also concerns that a stronger US dollar and potentially higher interest rates in the US would create headwinds for a number of Asian nations.

M&G Asian Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Investor sentiment was further dampened when the US Federal Reserve raised rates for the first time in a year in December in response to the ongoing US economic recovery.

From the end of December, however, there was a notable reversal in investor sentiment and company share prices began to rebound from their earlier declines. Alongside a more positive view of President Trump's policies, investors were encouraged by robust economic data in China, which suggested that the country's economy had stabilised after weakness at the start of 2016.

With investors in an upbeat mood, there was a notable shift away from 'defensive' stocks, which are perceived to be more resilient during times of uncertainty, towards shares in companies that are more closely linked to economic growth. Materials was the best-performing sector as commodity prices continued to recover from lows at the beginning of 2016, driven in part by strong demand from China.

Energy stocks also made significant gains, buoyed by oil prices which rallied when some of the leading oil-producing nations agreed to curb output in an attempt to reduce the global glut of oil. Financial stocks advanced too on expectations that the sector would benefit from rising interest rates and stronger economic growth. Information technology was another notable outperformer.

On the other hand, the consumer staples, healthcare and telecommunication services sectors lagged as investors shunned companies offering reliable growth and steady income payments, so-called 'bond proxies', which have been in favour for the past few years.

At the country level, Australia's stockmarket delivered the best returns, lifted by good performance from the numerous financial and materials companies in the market. Singapore, South Korea and Taiwan, three growth-oriented economies, also outperformed. In contrast, the smaller, more domestically focused south-east Asian nations were notable laggards, in particular the Philippines.

Another notable feature of the period was the style shift towards 'value'. Value stocks, which refer to cheap, out-of-favour companies, outperformed the broader market, which benefited our value-oriented approach.

In this environment, the fund delivered returns ahead of the comparative index, with stock selection across a range of areas adding value. The below-index positions in consumer staples and healthcare also helped relative performance as these sectors underperformed.

In the industrials sector, the holding in Downer EDI, an Australian engineering contractor, was among the leading contributors. Over the past couple of years, Downer has been shifting its focus away from the struggling mining sector towards transport and infrastructure activities. This strategy is starting to deliver benefits as Downer reported an increase in profits and raised its earnings forecast during the period.

Another Australian holding, QBE Insurance, an insurer, made a positive contribution as well. QBE's share price rallied on the prospect of rising interest rates, which should boost the financial company's profitability. Elsewhere, the holdings in DBS, a Singaporean bank, and South Korean financial groups Shinhan Financial and Hana Financial were also among the leading contributors.

In China, the holding in Fufeng, one of the country's leading producers of monosodium glutamate, added value. Fufeng's share price continued to recover from a period of weakness as investors welcomed signs that the food ingredients firm's profit margins were improving, helped by a new, more efficient process.

SK Hynix, a South Korean memory chip maker, was another notable contributor as rising chip prices boosted the firm's profits. Meanwhile, in the energy sector, Ezion Holdings, a Singapore-listed oil services firm, added value as the company's shares recouped some of their recent losses on the back of firmer oil prices. Similarly, Orica, an Australian supplier of explosives to the mining industry, benefited from a more positive outlook for the mining sector in light of higher commodity prices.

On the other hand, the holding in HollySys Automation Technologies, a Chinese provider of control devices, detracted from performance. The company's share price retreated during the period as HollySys's railway division suffered from delays in new orders. Weaker demand from the coal-fired power sector amid a switch to cleaner energy sources is also expected to dampen profits.

As mentioned previously, a number of the fund's financial holdings made significant gains. However, on the whole, stock selection in financials detracted and this was largely a result of not holding any Australian banks. They constitute a significant weight in the MSCI Asia Pacific ex Japan Index and generally outperformed over the period.

In addition, the holding in Indian financial group Axis Bank weighed on performance amid concerns about potentially rising levels of bad debts. Investors also worried that the government's surprise demonetisation policy, whereby high value currency notes were withdrawn from circulation, would have a negative impact on India's economy.

Meanwhile, in the utilities sector, the holding in Energy Development, a geothermal power producer from the Philippines, was a leading detractor. Utilities were generally out of favour over the period and the company has struggled as low coal prices caused power tariffs to fall.

Investment activities

Our value focus is currently leading us towards cheaper, economically sensitive areas of the market which have been out of favour lately, particularly financials and information technology. During the period, we started a position in Cathay Financial Holdings, a Taiwanese financial conglomerate that owns the country's leading insurance company. In our view, the valuation is attractive and we believe the company should benefit from rising interest rates in the US.

We also added to our holding in AIA Group, a Hong Kong-listed Pan-Asia insurance firm with leading market positions in the region. We regard AIA as a high-quality business with attractive growth prospects. The stakes in India's Axis Bank and Bank Mandiri, one of Indonesia's leading financial groups, were increased too.

M&G Asian Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

In the technology sector, we bought shares in Vtech, a Hong Kong-based supplier of electronic learning products. Investors have been concerned about declining sales and a planned acquisition of a rival firm. We believe the company is a quality business with a track record of profitability. In our view the merger offers long-term benefits, and we bought the shares at what we think is an attractive entry point. We also added to the existing position in Lenovo, a Chinese PC, smartphone and server company.

Sembcorp Industries, a Singapore-listed utilities firm, joined the portfolio as well. Sembcorp provides power and water services across Asia and the Middle East and has a stake in a shipbuilding company. The market is concerned about low power prices in India and weak demand for ships; however, we believe investors' worries are excessive and think that the stock is attractively valued.

First Pacific, a Hong Kong-based conglomerate with operations in Indonesia and the Philippines, was the final newcomer. We believe the holding company trades at a discount to the value of the underlying companies, which include consumer foods, infrastructure and telecommunication businesses.

In terms of complete sales, Hermes Microvision, a Taiwanese technology firm, left the portfolio after the business was taken over, while the small stake in Hong Kong and Shanghai Hotels, a Hong Kong-listed owner of luxury hotels and real estate, was sold as we saw better opportunities elsewhere.

We also took profits from a number of stocks that had performed well, including E-Mart, a South Korean retailer, Fufeng, a Chinese monosodium glutamate producer, and Prudential, a UK-listed insurance firm.

Outlook

We believe the current outlook for Asian stockmarkets is positive. Even after the gains during the review period, by our assessment, valuations broadly remain attractive. At the same time, we are encouraged by improving corporate performance which, in our view, is what ultimately drives long-term share price performance.

After years of Asian firms pursuing growth, we are starting to see evidence of better capital discipline and an increased focus on profitability. We are optimistic that firms, particularly in South Korea, will start to implement more shareholder-friendly policies, which could lead to higher shareholder returns over time. In our view, these positive fundamental trends are not currently reflected in valuations.

Within the region, we see this improvement in corporate performance as supportive for the continued switch into the cheaper, 'value' segments of the market. Furthermore, the wide valuation gap between 'growth' and 'value' stocks should also support the performance of value stocks as we believe the spread should narrow over time.

We recognise though that there are a number of potential headwinds facing Asian companies, not least developments in the West such as President Trump's trade policies and rising US interest rates. However, given the combination of valuations and fundamentals, we believe that the long-term prospects of Asian companies remain promising. Although there is likely to be turbulence, we believe a selective, value-oriented approach should be rewarded with attractive long-term returns.

Matthew Vaight

Fund manager

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

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

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

Investments

Portfolio statement				
as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %	
United Kingdom				
4,811,490 Ophir Energy	5,596	0.73		
167,668 Prudential [a]	3,355	0.43		
Australia				
1,233,623 ALS	5,710	0.74		
2,851,999 Downer EDI	15,390	1.99		
2,197,419 Iluka Resources	11,419	1.48		
3,647,744 Mesoblast	4,620	0.60		
54,761 Mesoblast ADR	353	0.05		
1,012,532 Nufarm	6,871	0.89		
1,019,355 Orica	14,311	1.86		
2,343,417 QBE Insurance Group	22,143	2.87		
4,661,127 Rex Minerals	247	0.03		
China				
16,376,000 AMVIG Holdings	5,718	0.74		
138,495 Baidu ADR	23,949	3.11		
16,862,000 China Lesso	12,535	1.63		
4,588,032 China Resources Power Holdings	8,299	1.08		
10,722,000 China Unicom	13,041	1.69		
10,091,000 CNOOC	11,935	1.55		
213,062 Ctrip.com International	10,285	1.33		
7,137,000 Dongfeng Motor	8,469	1.10		
13,315,000 Far East Horizon	12,763	1.65		
25,496,000 Greatview Aseptic Packaging	12,647	1.64		
842,339 HollySys Automation Technologies	14,682	1.90		
15,532,000 Lenovo	9,325	1.21		
5,471,240 PICC Property & Casualty	8,360	1.08		
883,600 Vtech	9,967	1.29		
Hong Kong				
4,074,000 AIA Group	25,746	3.34		
2,063,850 CK Hutchison Holdings	25,500	3.31		
23,351,000 Fufeng Group	14,682	1.90		
1,641,927 HSBC Holdings	13,222	1.71		
26,928,006 PCCW	16,341	2.12		
1,385,619 Standard Chartered	12,505	1.62		
	8,951	1.16	1.65	
	81,064	10.51	9.84	
	161,975	21.00	21.57	
	107,996	14.00	14.68	

M&G Asian Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
India	43,433	5.63	6.12
2,128,033 Axis Bank	16,134	2.09	
1,298,311 CESC	16,365	2.12	
2,133,437 McLeod Russel India	5,491	0.71	
2,229,914 NTPC	5,443	0.71	
Indonesia	8,277	1.07	0.82
9,768,900 Bank Mandiri	8,277	1.07	
Philippines	22,566	2.93	2.00
122,931,050 Energy Development	14,444	1.87	
11,158,000 First Pacific	8,122	1.06	
Singapore	55,708	7.22	5.95
16,171,400 CSE Global	5,605	0.73	
1,832,251 DBS Group Holdings	24,525	3.18	
32,360,190 Ezion Holdings	8,441	1.09	
5,475,493 Ezion Holdings wts. 2020	317	0.04	
141,144 Jardine Matheson	8,777	1.14	
3,528,200 Sembcorp Industries	8,043	1.04	
South Korea	130,235	16.88	18.40
12,405 E-Mart	2,276	0.30	
498,188 Hana Financial Group	15,531	2.01	
88,103 Hyundai Motor	11,609	1.50	
251,458 Kia Motors	8,496	1.10	
23,583 Samsung Electronic	40,085	5.20	
51,482 Samsung Fire & Marine Insurance	11,587	1.50	
544,610 Shinhan Financial Group	22,469	2.91	
440,251 SK hynix	18,182	2.36	
Taiwan	126,615	16.42	16.38
2,329,000 Casetek Holdings	7,808	1.01	
1,252,000 Catcher Technology	10,473	1.36	
5,010,000 Cathay Financial Holdings	7,868	1.02	
6,101,849 Chicony Electronics	14,379	1.87	
10,064,564 Compal Electronics	6,290	0.82	
3,159,220 Delta Electronics	17,582	2.28	
721,000 eMemory Technology	10,326	1.34	
5,622,178 Taiwan Semiconductor Manufacturing	34,586	4.48	
10,632,000 TECO Electric & Machinery	9,586	1.24	
4,780,000 Yungtlay Engineering	7,717	1.00	
Thailand	4,701	0.61	1.69
8,415,200 Krung Thai Bank	4,701	0.61	
Portfolio of investments	751,521	97.43	99.10
Eire ('AAA' rated money market funds) ^[b]	13,147	1.70	1.24
13,147,000 Northern Trust Global Fund - US dollar	13,147	1.70	
Total portfolio	764,668	99.13	100.34
Net other assets / (liabilities)	6,692	0.87	(0.34)
Net assets attributable to shareholders	771,360	100.00	100.00

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

^[a] Related party to the fund.

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

Top ten portfolio transactions

for the six months to 28 February 2017

Largest purchases	\$'000
Vtech	10,293
Lenovo	8,727
First Pacific	8,439
Sembcorp Industries	7,929
Cathay Financial Holdings	7,636
AIA Group	7,471
Axis Bank	3,618
CK Hutchison Holdings	3,332
Bank Mandiri	2,522
PCCW	2,434
Other purchases	30,314
Total purchases	92,715
Largest sales	\$'000
Hermes Microvision	9,400
Fufeng Group	9,277
Krung Thai Bank	7,294
E-Mart	6,237
Prudential ^[a]	5,426
SK hynix	5,307
The Hongkong and Shanghai Hotels	4,717
Downer EDI	4,654
China Unicom	4,554
HSBC Holdings	3,905
Other sales	65,852
Total sales	126,623

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

^[a] Related party to the fund.

M&G Asian Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

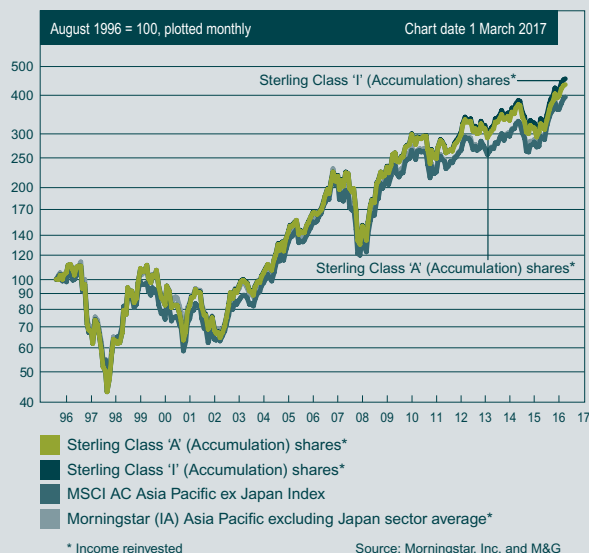
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	28.02.17 \$'000	31.08.16 \$'000	31.08.15 \$'000
Fund net asset value (NAV)	771,360	733,375	807,742

Performance since launch

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



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

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

M&G Asian Fund

Financial highlights

Fund performance

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

Long-term performance by share class

	Six months 01.09.16 % [a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+15.8	+12.4	+8.5	+9.5 [c]
Class 'C'	+16.2	+13.2	+9.3	+10.2 [c]
Sterling [d]				
Class 'A'	+17.6	+13.8	+9.0	+9.2 [e]
Class 'I'	+18.1	+14.7	n/a	+12.2 [f]
Class 'R'	+17.9	+14.4	n/a	+11.9 [f]
Class 'X'	+17.6	+13.8	+9.0	+16.4 [g]
US dollar [b]				
Class 'A'	+9.4	+2.8	+3.5	+11.4 [h]
Class 'C'	+9.8	+3.6	+4.3	+12.2 [h]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] Price to price with income reinvested.

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

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

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

[h] 19 December 2008, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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

	Six months to 28.02.17 %	Year to 31.08.16 %	Year to 31.08.15 %	Average [a] %
Direct portfolio transaction costs [b]				
Broker commission	0.06	0.06	0.07	0.06
Taxes	0.06	0.05	0.05	0.05
Costs before dilution adjustments	0.12	0.11	0.12	0.11
Dilution adjustments [c]	(0.08)	(0.07)	(0.09)	(0.08)
Total direct portfolio transaction costs	0.04	0.04	0.03	0.03
as at				
Indirect portfolio transaction costs	28.02.17 %	31.08.16 %	31.08.15 %	Average [a] %
Average portfolio dealing spread	0.26	0.28	0.43	0.32

[a] Average of first three columns.

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

[c] In respect of direct portfolio transaction costs.

M&G Asian Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	3,449.85	3,217.85	3,396.92
Return before operating charges and after direct portfolio transaction costs	520.11	288.24	(116.53)
Operating charges	(31.26)	(56.24)	(62.54)
Return after operating charges	488.85	232.00	(179.07)
Distributions	n/a	(26.05)	(25.11)
Retained distributions	n/a	26.05	25.11
Closing NAV	3,938.70	3,449.85	3,217.85
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.23	3.48	4.39
Dilution adjustments ^[b]	(1.50)	(2.11)	(3.14)
Total direct portfolio transaction costs	0.73	1.37	1.25
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+14.17	+7.21	-5.27
Historic yield	0.66	0.73	0.77
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	153,840	142,932	181,591
Closing NAV percentage of total fund NAV (%)	19.94	19.49	22.48
Number of shares	3,684,257	3,718,496	5,003,076
Highest share price (Euro ¢)	4,016.75	3,604.36	4,180.57
Lowest share price (Euro ¢)	3,394.56	2,780.32	2,998.38

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	3,808.43	3,525.90	3,694.95
Return before operating charges and after direct portfolio transaction costs	575.71	317.81	(130.71)
Operating charges	(19.70)	(35.28)	(38.34)
Return after operating charges	556.01	282.53	(169.05)
Distributions	n/a	(55.29)	(55.63)
Retained distributions	n/a	55.29	55.63
Closing NAV	4,364.44	3,808.43	3,525.90
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	2.48	3.83	4.76
Dilution adjustments ^[b]	(1.67)	(2.32)	(3.41)
Total direct portfolio transaction costs	0.81	1.51	1.35
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+14.60	+8.01	-4.58
Historic yield	1.26	1.41	1.57
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	183,235	125,003	148,581
Closing NAV percentage of total fund NAV (%)	23.75	17.04	18.39
Number of shares	3,960,170	2,945,870	3,735,973
Highest share price (Euro ¢)	4,450.36	3,954.75	4,567.52
Lowest share price (Euro ¢)	3,748.66	3,056.82	3,284.97

Sterling Class 'A' Income share performance

The share class was launched on 14 September 1973.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,221.09	991.98	1,143.61
Return before operating charges and after direct portfolio transaction costs	190.97	256.71	(124.83)
Operating charges	(11.26)	(18.31)	(19.72)
Return after operating charges	179.71	238.40	(144.55)
Distributions	n/a	(9.29)	(7.08)
Closing NAV	1,400.80	1,221.09	991.98
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.80	1.13	1.38
Dilution adjustments ^[b]	(0.54)	(0.69)	(0.99)
Total direct portfolio transaction costs	0.26	0.44	0.39
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+14.72	+24.03	-12.64
Historic yield ^[c]	1.88	0.75	0.70
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	171,958	187,766	188,419
Closing NAV percentage of total fund NAV (%)	22.29	25.60	23.33
Number of shares	9,867,985	11,705,434	12,343,473
Highest share price (UK p)	1,415.36	1,266.13	1,276.90
Lowest share price (UK p)	1,202.92	907.00	928.53

M&G Asian Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 14 September 1973.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,913.98	1,542.92	1,766.15
Return before operating charges and after direct portfolio transaction costs	299.32	399.57	(192.79)
Operating charges	(17.64)	(28.51)	(30.44)
Return after operating charges	281.68	371.06	(223.23)
Distributions	n/a	(14.45)	(11.21)
Retained distributions	n/a	14.45	11.21
Closing NAV	2,195.66	1,913.98	1,542.92
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.26	1.76	2.14
Dilution adjustments ^[b]	(0.85)	(1.07)	(1.53)
Total direct portfolio transaction costs	0.41	0.69	0.61
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+14.72	+24.05	-12.64
Historic yield	0.65	0.74	0.71
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	155,992	166,448	165,393
Closing NAV percentage of total fund NAV (%)	20.22	22.70	20.48
Number of shares	5,711,060	6,620,048	6,966,135
Highest share price (UK p)	2,218.50	1,969.59	1,971.99
Lowest share price (UK p)	1,885.52	1,410.94	1,433.99

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,378.34	1,119.48	1,291.96
Return before operating charges and after direct portfolio transaction costs	215.96	291.00	(142.05)
Operating charges	(7.22)	(11.81)	(12.70)
Return after operating charges	208.74	279.19	(154.75)
Distributions	n/a	(20.33)	(17.73)
Closing NAV	1,587.08	1,378.34	1,119.48
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.91	1.28	1.58
Dilution adjustments ^[b]	(0.61)	(0.78)	(1.13)
Total direct portfolio transaction costs	0.30	0.50	0.45
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+15.14	+24.94	-11.98
Historic yield ^[c]	1.94	1.45	1.64
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	12,776	11,991	9,613
Closing NAV percentage of total fund NAV (%)	1.66	1.63	1.19
Number of shares	647,126	662,245	558,016
Highest share price (UK p)	1,603.36	1,438.83	1,449.26
Lowest share price (UK p)	1,358.16	1,026.83	1,056.77

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,453.84	1,163.21	1,321.64
Return before operating charges and after direct portfolio transaction costs	227.80	302.90	(145.48)
Operating charges	(7.62)	(12.27)	(12.95)
Return after operating charges	220.18	290.63	(158.43)
Distributions	n/a	(21.10)	(18.14)
Retained distributions	n/a	21.10	18.14
Closing NAV	1,674.02	1,453.84	1,163.21
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.96	1.33	1.61
Dilution adjustments ^[b]	(0.64)	(0.81)	(1.15)
Total direct portfolio transaction costs	0.32	0.52	0.46
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+15.14	+24.99	-11.99
Historic yield	1.25	1.42	1.54
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	27,198	25,198	22,571
Closing NAV percentage of total fund NAV (%)	3.53	3.44	2.79
Number of shares	1,306,022	1,319,384	1,261,003
Highest share price (UK p)	1,691.22	1,495.59	1,482.42
Lowest share price (UK p)	1,432.58	1,067.33	1,080.94

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	137.68	111.82	129.04
Return before operating charges and after direct portfolio transaction costs	21.55	29.04	(14.16)
Operating charges	(0.90)	(1.48)	(1.58)
Return after operating charges	20.65	27.56	(15.74)
Distributions	n/a	(1.70)	(1.48)
Closing NAV	158.33	137.68	111.82
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.13	0.16
Dilution adjustments ^[b]	(0.06)	(0.08)	(0.11)
Total direct portfolio transaction costs	0.03	0.05	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.23	1.24	1.23
Return after operating charges	+15.00	+24.65	-12.20
Historic yield ^[c]	1.92	1.21	1.30
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (\$'000)	283	266	309
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.04
Number of shares	143,666	147,292	179,420
Highest share price (UK p)	159.96	143.39	144.53
Lowest share price (UK p)	135.65	102.46	105.29

M&G Asian Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	143.96	115.47	131.52
Return before operating charges and after direct portfolio transaction costs	22.53	30.02	(14.44)
Operating charges	(0.94)	(1.53)	(1.61)
Return after operating charges	21.59	28.49	(16.05)
Distributions	n/a	(1.76)	(1.50)
Retained distributions	n/a	1.76	1.50
Closing NAV	165.55	143.96	115.47
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.13	0.16
Dilution adjustments ^[b]	(0.06)	(0.08)	(0.11)
Total direct portfolio transaction costs	0.03	0.05	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.23	1.25	1.23
Return after operating charges	+15.00	+24.67	-12.20
Historic yield	1.05	1.20	1.29
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	252	288	226
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.03
Number of shares	122,232	152,232	127,236
Highest share price (UK p)	167.27	148.11	147.30
Lowest share price (UK p)	141.84	105.83	107.31

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,219.45	990.66	1,142.31
Return before operating charges and after direct portfolio transaction costs	190.70	256.35	(124.68)
Operating charges	(11.24)	(18.29)	(19.70)
Return after operating charges	179.46	238.06	(144.38)
Distributions	n/a	(9.27)	(7.27)
Closing NAV	1,398.91	1,219.45	990.66
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.80	1.13	1.38
Dilution adjustments ^[b]	(0.54)	(0.69)	(0.99)
Total direct portfolio transaction costs	0.26	0.44	0.39
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+14.72	+24.03	-12.64
Historic yield ^[c]	1.88	0.75	0.72
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	13,587	13,792	15,901
Closing NAV percentage of total fund NAV (%)	1.76	1.88	1.97
Number of shares	780,723	860,984	1,043,106
Highest share price (UK p)	1,413.45	1,264.42	1,275.45
Lowest share price (UK p)	1,201.30	905.79	927.47

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,896.08	1,528.50	1,749.73
Return before operating charges and after direct portfolio transaction costs	296.51	395.80	(191.18)
Operating charges	(17.48)	(28.22)	(30.05)
Return after operating charges	279.03	367.58	(221.23)
Distributions	n/a	(14.36)	(8.39)
Retained distributions	n/a	14.36	8.39
Closing NAV	2,175.11	1,896.08	1,528.50
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.25	1.74	2.11
Dilution adjustments ^[b]	(0.84)	(1.06)	(1.51)
Total direct portfolio transaction costs	0.41	0.68	0.60
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.73	1.74	1.73
Return after operating charges	+14.72	+24.05	-12.64
Historic yield	0.65	0.74	0.53
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	4,449	4,461	5,997
Closing NAV percentage of total fund NAV (%)	0.58	0.61	0.74
Number of shares	164,406	179,103	254,950
Highest share price (UK p)	2,197.73	1,951.15	1,953.58
Lowest share price (UK p)	1,867.87	1,397.74	1,420.59

US dollar Class 'A' Accumulation share performance

The share class was launched on 19 December 2008.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	2,223.02	2,099.27	2,591.22
Return before operating charges and after direct portfolio transaction costs	211.42	160.28	(450.21)
Operating charges	(19.47)	(36.53)	(41.74)
Return after operating charges	191.95	123.75	(491.95)
Distributions	n/a	(16.70)	(15.98)
Retained distributions	n/a	16.70	15.98
Closing NAV	2,414.97	2,223.02	2,099.27
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.39	2.25	2.93
Dilution adjustments ^[b]	(0.93)	(1.36)	(2.10)
Total direct portfolio transaction costs	0.46	0.89	0.83
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	1.73	1.75	1.73
Return after operating charges	+8.63	+5.89	-18.99
Historic yield	0.69	0.73	0.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	15,725	24,046	32,652
Closing NAV percentage of total fund NAV (%)	2.04	3.28	4.04
Number of shares	651,158	1,081,682	1,555,420
Highest share price (US ¢)	2,445.66	2,276.87	2,627.35
Lowest share price (US ¢)	2,154.76	1,813.63	1,993.03

M&G Asian Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 19 December 2008.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	2,354.12	2,206.34	2,702.89
Return before operating charges and after direct portfolio transaction costs	224.53	169.54	(471.65)
Operating charges	(11.76)	(21.76)	(24.90)
Return after operating charges	212.77	147.78	(496.55)
Distributions	n/a	(34.14)	(35.08)
Retained distributions	n/a	34.14	35.08
Closing NAV	2,566.89	2,354.12	2,206.34
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	1.48	2.36	3.09
Dilution adjustments ^[b]	(1.00)	(1.43)	(2.21)
Total direct portfolio transaction costs	0.48	0.93	0.88
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.04	0.03
Operating charges	0.98	0.99	0.98
Return after operating charges	+9.04	+6.70	-18.37
Historic yield	1.34	1.41	1.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	32,065	31,184	36,489
Closing NAV percentage of total fund NAV (%)	4.16	4.25	4.52
Number of shares	1,249,164	1,324,635	1,653,818
Highest share price (US ¢)	2,599.24	2,396.19	2,745.17
Lowest share price (US ¢)	2,285.66	1,912.64	2,094.38

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

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

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

M&G Asian Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		58,512		(72,852)
Revenue	6,074		5,630	
Expenses	(5,294)		(6,006)	
Net revenue / (expense) before taxation	780		(376)	
Taxation	(443)		(586)	
Net revenue / (expense) after taxation		337		(962)
Total return before equalisation		58,849		(73,814)
Equalisation		(23)		116
Change in net assets attributable to shareholders from investment activities		58,826		(73,698)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		733,375		807,742
Amounts received on issue of shares	89,511		92,413	
Amounts paid on cancellation of shares	(110,873)		(117,897)	
		(21,362)		(25,484)
Dilution adjustments		521		505
Change in net assets attributable to shareholders from investment activities (see above)		58,826		(73,698)
Closing net assets attributable to shareholders		771,360		709,065

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	\$'000	\$'000
Assets		
Fixed assets		
Investments	764,668	735,834
Current assets		
Debtors	5,369	2,867
Cash and bank balances	3,743	3,937
Total assets	773,780	742,638
Liabilities		
Creditors		
Bank overdrafts	0	(2,309)
Distribution payable	0	(1,713)
Other creditors	(2,420)	(5,241)
Total liabilities	(2,420)	(9,263)
Net assets attributable to shareholders	771,360	733,375

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G Asian Fund

Financial statements and notes

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M&G European Index Tracker Fund

Authorised Corporate Director's Report

Investment objective and policy

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

Investment approach

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

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

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Risk profile

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

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

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

The M&G European Index Tracker is designed to track the FTSE World Europe ex UK Index. Between 1 September 2016 (the start of the review period) and 1 March 2017, the fund's Sterling Class 'A' shares returned 11.1% while the Euro Class 'A' shares returned 9.3%, with the difference in returns between the share classes a reflection of currency movements over the period. ^[a]

Meanwhile, the FTSE World Europe ex UK Index returned 13.1% in sterling terms and 11.1% in euro terms. The fund's underperformance against the index was primarily due to a timing difference in the pricing of the fund and the index. The fund is priced at midday while the index is priced at close of day. This difference in timing was substantial because of a sharp decline in share prices in the morning of 1 September 2016 and a rally in share prices in the afternoon of 1 March 2017.

Investment performance

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

As the fund tracks the index, its overall performance can largely be explained by market developments over the period under review.

European stockmarkets gained for much of the period under review, with sentiment bolstered by continued support from the European Central Bank (ECB) and increasingly, improved economic data. Throughout the autumn, investors' attention focused on the US presidential election in early November, leading to volatile markets. The somewhat surprising victory of Donald Trump sparked a significant shift in investor sentiment, with the prospect of higher infrastructure expenditure and lower taxes and regulations expected to boost the US economy, and possibly the global economy too.

In December, the ECB announced it would extend its programme of stimulus measures and the continued support should bolster the ongoing economic recovery at a time of considerable political uncertainty. Aside from the UK's decision to leave the European Union (EU), the region faces a number of significant elections this year.

In a positive development for commodities, stronger economic performance from China and the US as the year progressed boosted prices. The price of oil also picked up amid signs that the global glut of crude was easing. Moreover, the oil price rose after both OPEC (The Organization of the Petroleum Exporting Countries) and non-OPEC members agreed to cut production.

M&G European Index Tracker Fund

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Investment review

Investment performance (continued)

Turning to the economy, activity in the euro area continues to expand, albeit modestly; quarter-on-quarter growth rose by 0.4% in the fourth quarter of 2016, according to estimates, unchanged on the preceding quarter. Over 2016, the euro area grew by 1.7%. In the most recent quarter, core countries Germany and France recorded decent growth of 0.4%, while Spain's economy expanded by 0.7%.

Inflation too is showing signs of picking up, after a prolonged period of weak growth or declines in consumer prices. In February 2017, initial estimates suggest that inflation rose from 1.8% the previous month, to 2.0%, finally reaching the ECB's target level. The core rate (excluding energy, food, alcohol and tobacco) remains more subdued at an estimated 0.9%. Nevertheless, the move away from potential deflation, that is, a decrease in the general price level of goods and services, is welcome as falling prices can discourage consumers from spending, in anticipation of further price declines.

Meanwhile, unemployment levels continue to improve, albeit slowly and rates for member states are mixed. The unemployment rate for the eurozone was 9.6% in January 2017, unchanged from December 2016. This compares with 10.4% in January 2016. The lowest unemployment rates were recorded in the Czech Republic (3.4%) and Germany (3.8%), while the highest levels were to be found in Greece (23.0% in November) and Spain (18.2%). Southern European countries continue to experience high levels of youth unemployment, with Greece and Spain recording figures of more than 40%, while the rate for Italy was nearly 38%.

In a broadly optimistic environment, investors favoured sectors like industrial metals, mining and, to a lesser extent, oil & gas producers. Such sectors tend to be closely associated with economic cycles, and are often more in demand during economic upturns, unlike their 'defensive' counterparts, which tend not to be very sensitive to swings in economic conditions. For example, beverages, utilities, tobacco and food producers trailed behind over the period under review. Interestingly, European banks, which have been weak as low interest rates put pressure on profitability, were also among the stronger sectors in a more confident environment and as concerns about a tighter regulatory environment eased. Nevertheless, many banks in the region are struggling with high levels of bad debt.

Investment activities

In terms of purchases over the review period, we increased our holding in French firm Technip, which is involved in project management, engineering and construction for the energy industry. The purchase was made in connection with Technip's merger with US company FMC Technologies, with the newly created entity named TechnipFMC.

We increased our position in Spanish financial services company Caixabank to reflect the firm's increased weighting in the index subsequent to a placing of company shares. A placing involves the sale of securities to institutional investors.

We also took the opportunity to buy more shares in Italian financial services company UniCredit as part of a rights issue. A rights issue by a firm gives existing shareholders the right to buy additional new shares in the company. This move enabled us to keep our weighting in the stock in line with the index.

Meanwhile, a number of companies were added to the index and we subsequently initiated holdings in the portfolio. New entrants included German energy concern Innogy, Swedish real estate company Fastighets AB Balder and Huhtamaki, a global food packaging specialist, headquartered in Finland.

Other sales and purchases were made in connection with large cashflows in and out of the fund during the period under review. Specific transactions included Swiss food and beverage business Nestlé, Swiss drug firm Novartis, French oil & gas concern Total and French pharmaceutical company Sanofi.

Outlook

Investors in European equities are relatively upbeat; risk appetite has been supported by optimism about the outlook for global growth and rising oil prices. Economic activity appears to be picking up, with a range of data suggesting that the recovery is set to continue. While the picture for the region's economy is looking more positive than for some time, Europe faces a number of significant political challenges. In particular, against a backdrop of increased support for populist groups, critical elections are due in Europe this year, most notably in France and Germany, which may have far-reaching repercussions. In addition, Greece is back in the news, with the nation's creditors in disagreement over the next steps for the highly indebted country.

More specifically for the economy, higher inflation is likely to weigh on real incomes, potentially leading to reduced expenditure by consumers. Many of Europe's banks remain troubled by high levels of bad debt and the sector is still fragile. Meanwhile, the UK's decision to leave the EU will impact the region and market observers await greater clarity about the political, economic and trading prospects for the post-Brexit EU. Furthermore, European exporters may come under pressure should President Trump adopt more protectionist policies, which could potentially dampen international trade.

Given this somewhat uncertain backdrop, there is the likelihood of volatility at times, at least in the near term. Nevertheless, for now, investor sentiment is relatively buoyant and European economies at last seem to be showing signs of a more sustained revival.

Nigel Booth Fund manager

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

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

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

M&G European Index Tracker Fund

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Investments

Portfolio statement				
as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %	
Equities	101,971	99.61	99.27	
Austria	490	0.48	0.41	
1,332 Andritz	66	0.06		
5,406 Erste Group	150	0.15		
3,136 OMV	113	0.11		
2,400 Raiffeisen International Bank	50	0.05		
734 Vienna Insurance Group	16	0.02		
2,392 Voestalpine	95	0.09		
Belgium	2,748	2.69	2.98	
4,365 Ageas	156	0.16		
15,070 Anheuser-Busch InBev	1,545	1.51		
1,700 bpost	40	0.04		
2,919 ENGIE VVPR Strip ^[a]	0	0.00		
2,257 Groupe Bruxelles Lambert	179	0.18		
5,323 KBC Group	308	0.30		
2,737 Proximus (formerly Belgacom)	76	0.07		
1,359 Solvay	149	0.15		
1,000 Telenet Group	53	0.05		
2,350 UCB	158	0.15		
1,690 Umicore	84	0.08		
Czech Republic	127	0.13	0.11	
3,500 CEZ	58	0.06		
2,023 Komerční banka	69	0.07		
Denmark	3,668	3.58	4.11	
206 AP Moller-Maersk	317	0.31		
2,166 Carlsberg	178	0.17		
1,664 Chr. Hansen Holding	93	0.09		
2,181 Coloplast	144	0.14		
13,718 Danske Bank	432	0.42		
1,516 Dong Energy	52	0.05		
3,546 DSV	164	0.16		
1,032 Genmab	191	0.19		
3,782 ISS	137	0.13		
1,200 JYSKE Bank	58	0.06		
34,602 Novo-Nordisk	1,157	1.13		
4,425 Novozymes	160	0.16		
2,087 Pandora	225	0.22		
14,000 TDC	71	0.07		
4,202 Vestas Wind Systems	289	0.28		
Eire	462	0.45	0.47	
533,769 Bank of Ireland	122	0.12		
2,500 Glanbia	46	0.04		
16,490 Irish Bank Resolution Corporation ^[a]	0	0.00		
3,136 Kerry Group	227	0.22		
4,746 Ryanair Holdings	67	0.07		
Finland	2,376	2.32	2.31	
3,299 Elisa	103	0.10		
8,167 Fortum	118	0.12		
1,500 Huhtamaki	51	0.05		
1,388 Kesko	60	0.06		
7,194 Kone	303	0.30		
2,400 Metso	67	0.06		
2,659 Neste (formerly Neste Oil)	89	0.09		
106,365 Nokia	514	0.50		
2,890 Nokian Renkaat	107	0.10		
1,900 Orion Corporation Series	89	0.09		
9,358 Sampo	402	0.39		
11,215 Stora Enso	113	0.11		
9,736 UPM-Kymmene	219	0.21		
2,914 Wartsila	141	0.14		

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
France	21,351	20.86	20.62 ^[b]
3,573 Accor	132	0.13	
536 Aéroports de Paris	57	0.06	
1,778 Air Liquide	182	0.18	
4,757 Air Liquide (prime de fidélité 2012)	486	0.47	
1,000 Air Liquide (prime de fidélité 2019)	102	0.10	
10,057 Airbus	692	0.68	
3,270 Alstom	83	0.08	
1,368 Arkema	124	0.12	
1,850 Atos	206	0.20	
36,255 AXA	803	0.78	
580 BIC	68	0.07	
17,876 BNP Paribas	988	0.97	
17,340 Bolloré	63	0.06	
116 Bolloré RFD 2017	0	0.00	
3,956 Bouygues	143	0.14	
4,797 Bureau Veritas	86	0.08	
3,035 Cap Gemini	246	0.24	
10,759 Carrefour	243	0.24	
1,313 Casino Guichard Perrachon	66	0.06	
938 Christian Dior	188	0.18	
3,303 CNP Assurances	58	0.06	
8,980 Compagnie de Saint Gobain	405	0.39	
6,859 Crédit Agricole	78	0.08	
10,000 Crédit Agricole (prime de fidélité 2012)	114	0.11	
5,000 Crédit Agricole (prime de fidélité 2019)	57	0.05	
10,703 Danone	666	0.65	
2,473 Dassault Systemes	189	0.18	
3,929 Edenred	84	0.08	
1,966 EDF	18	0.02	
3,522 EDF (prime de fidélité 2017)	32	0.03	
1,461 Eiffage	98	0.10	
7,463 ENGIE (prime de fidélité 2017)	85	0.08	
5,000 ENGIE (prime de fidélité 2019)	57	0.06	
17,798 ENGIE (prime de fidélité regd.)	203	0.20	
3,890 Essilor International	418	0.41	
1,205 Eurazeo	70	0.07	
219 Eurofins Scientific	85	0.08	
3,785 Eutelsat Communications	70	0.07	
1,144 Faurecia	47	0.05	
932 Foncière Des Régions	71	0.07	
894 Gecina	107	0.10	
1,734 Gemalto	98	0.10	
9,249 Groupe Eurotunnel	82	0.08	
462 Hermes International	190	0.19	
392 Iliad	76	0.07	
955 Ingenico	81	0.08	
1,514 Kering	351	0.34	
4,237 Klepierre	148	0.14	
2,890 Lagardère	68	0.07	
4,803 Legrand	256	0.25	
1,087 L'Oréal	190	0.19	
3,416 L'Oréal (prime de fidélité 2012)	596	0.58	
4,616 LVMH	872	0.85	
3,423 Michelin	363	0.35	
19,355 Natixis	100	0.10	
1,740 Numericable - SFR	48	0.05	
35,942 Orange	511	0.50	
1,050 Orpea	86	0.08	
4,400 Pernod Ricard	474	0.46	
7,755 Peugeot	139	0.14	
4,722 Peugeot SA wts. 2017	19	0.02	
4,088 Publicis Groupe	260	0.25	
3,195 Renault	268	0.26	

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Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
France (continued)			
5,307 Rexel	81	0.08	
5,408 Safran	358	0.35	
21,293 Sanofi	1,716	1.68	
10,217 Schneider Electric	654	0.64	
3,468 SCOR	119	0.12	
400 SEB SA	49	0.05	
7,168 SES Global	140	0.14	
13,295 Société Générale	559	0.55	
126 Sodexo	13	0.01	
1,500 Sodexo (prime de fidélité regd)	155	0.15	
12,150 STMicroelectronics	174	0.17	
6,044 Suez Environnement	85	0.08	
8,776 Technipfmc	268	0.26	
1,083 Teleperformance	113	0.11	
1,919 Thales	175	0.17	
40,671 Total	1,918	1.87	
4,500 Valeo	262	0.26	
9,094 Veolia Environnement	140	0.14	
8,605 Vinci	580	0.57	
21,102 Vivendi	353	0.34	
761 Wendel	80	0.08	
4,078 Zodiac Aerospace	113	0.11	
Germany	21,034	20.55	20.15^[b]
3,762 adidas	595	0.58	
8,515 Allianz	1,398	1.37	
1,049 Axel Springer	51	0.05	
17,015 BASF	1,490	1.46	
15,246 Bayer	1,583	1.55	
6,822 Bayerische Motoren Werke	574	0.56	
159 Bayerische Motoren Werke Pref.	11	0.01	
1,927 Beiersdorf	166	0.16	
3,468 Brenntag	188	0.18	
19,162 Commerzbank	138	0.14	
2,027 Continental	390	0.38	
705 Covestro	50	0.05	
19,270 Daimler	1,316	1.29	
26,413 Deutsche Bank	495	0.48	
3,600 Deutsche Börse	291	0.29	
5,116 Deutsche Lufthansa	71	0.07	
17,893 Deutsche Post	577	0.56	
61,739 Deutsche Telekom	1,007	0.98	
6,479 Deutsche Wohnen	207	0.20	
35,734 E.ON	261	0.26	
3,136 Evonik Industries	95	0.09	
600 Fraport	35	0.04	
7,666 Fresenius	575	0.56	
4,094 Fresenius Medical Care	321	0.31	
1,619 FUCHS PETROLUB	71	0.07	
3,873 GEA Group	143	0.14	
1,046 Hannover Re	112	0.11	
2,790 HeidelbergCement	245	0.24	
5,186 Henkel	610	0.60	
300 Hochtief	43	0.04	
1,216 HUGO BOSS	82	0.08	
21,182 Infineon Technologies	351	0.34	
2,200 Innogy	74	0.07	
4,938 K&S	108	0.11	
1,621 Kion Group	90	0.09	
1,920 LANXESS	123	0.12	

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Germany (continued)			
1,335 LEG	103	0.10	
3,427 Linde	521	0.51	
804 MAN	78	0.08	
2,385 Merck	246	0.24	
3,228 Metro	95	0.09	
1,041 MTU Aero Engines	124	0.12	
2,777 Munich Re	494	0.48	
1,787 OSRAM	100	0.10	
3,266 Porsche Pref.	171	0.17	
4,375 ProSiebenSat.1 Media	165	0.16	
4,228 QIAGEN	114	0.11	
743 RTL	54	0.05	
9,532 RWE	128	0.13	
16,469 SAP	1,443	1.41	
14,001 Siemens	1,710	1.67	
1,000 Südzucker	24	0.02	
2,339 Symrise	137	0.13	
8,492 ThyssenKrupp	200	0.20	
4,128 Uniper	55	0.05	
2,240 United Internet	87	0.08	
2,359 Volkswagen	339	0.33	
1,563 Volkswagen Pref.	219	0.22	
8,839 Vonovia	290	0.28	
2,193 Wirecard	95	0.09	
2,768 Zalando	105	0.10	
Greece	167	0.16	0.14
38,982 Alpha Bank	66	0.06	
7,002 Hellenic Telecommunications	60	0.06	
101,333 National Bank of Greece	24	0.02	
94,983 Piraeus Bank	17	0.02	
Hungary	237	0.23	0.20
3,295 Gedeon Richter	70	0.07	
924 MOL Hungarian Oil and Gas	61	0.06	
3,815 OTP Bank	106	0.10	
Italy	4,919	4.81	4.52^[b]
25,816 Assicurazioni Generali	353	0.35	
10,217 Atlantia	226	0.23	
7,997 Banca Mediolanum	50	0.05	
18,885 CNH Industrial	165	0.16	
139,649 Enel	567	0.55	
46,777 Eni	683	0.67	
2,332 EXOR	106	0.10	
2,423 Ferrari NV	150	0.15	
20,449 Fiat Chrysler Automobiles	215	0.21	
246,514 Intesa Sanpaolo	545	0.53	
9,054 Italgas	34	0.03	
7,298 Leonardo (formerly Finmeccanica)	94	0.09	
3,289 Luxottica Group	162	0.16	
15,616 Mediaset	61	0.06	
12,745 Mediobanca	96	0.09	
4,393 Prysmian	105	0.10	
1,951 Recordati	59	0.06	
105,984 Saipem	45	0.04	
45,270 Snam	172	0.17	
194,967 Telecom Italia	152	0.15	
96,905 Telecom Italia (Savings shares)	61	0.06	
9,057 Tenaris	142	0.14	
28,465 Terna	125	0.12	
21,264 UBI Banca	62	0.06	
38,900 UniCredit	489	0.48	

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Investments

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Netherlands	7,001	6.84	6.98 ^[b]
5,261 ABN Amro	114	0.11	
35,312 Aegon	176	0.17	
4,623 Akzo Nobel	291	0.28	
8,335 Altice	166	0.16	
35,073 ArcelorMittal	291	0.28	
5,961 ASML Holding	681	0.67	
1,162 Boskalis	40	0.04	
3,565 DSM	220	0.22	
5,423 Heineken	422	0.41	
300 Heineken Holding	21	0.02	
72,612 ING Groep	938	0.92	
24,126 Koninklijke Ahold Delhaize	486	0.47	
57,029 KPN	152	0.15	
6,110 NN Group	179	0.18	
17,382 Philips	490	0.48	
2,091 Randstad Holding	114	0.11	
17,256 RELX	287	0.28	
1,826 Unibail-Rodamco	390	0.38	
29,113 Unilever	1,294	1.26	
1,156 Vopak	46	0.05	
5,268 Wolters Kluwer	203	0.20	
Norway	1,466	1.43	1.33
20,524 DnB	321	0.31	
3,468 Gjensidige Forsikring	52	0.05	
7,288 Marine Harvest	120	0.11	
26,740 Norsk Hydro	141	0.14	
14,530 Orkla	121	0.12	
1,880 Schibsted 'A'	47	0.05	
1,200 Schibsted 'B'	27	0.03	
18,021 Statoil	301	0.29	
14,155 Telenor	217	0.21	
3,342 Yara International	119	0.12	
Poland	833	0.81	0.72
3,420 Bank Pekao	110	0.11	
864 Bank Zachodni WBK	71	0.07	
1,442 Grupa Azoty	24	0.02	
2,192 KGHM Polska Miedz	65	0.06	
35 LPP	47	0.05	
270 mBank	25	0.02	
13,000 Orange Polska	14	0.01	
18,496 PGE Polska Grupa	51	0.05	
7,855 PKN Orlen	172	0.17	
15,845 PKO Bank Polski	122	0.12	
13,295 PZU	113	0.11	
27,621 TAURON Polska Energia	19	0.02	
Portugal	349	0.34	0.33 ^[b]
44,075 EDP - Energias de Portugal	128	0.13	
2,554 EDP Renováveis	15	0.01	
8,991 Galp Energia	124	0.12	
5,434 Jerónimo Martins	82	0.08	
Spain	6,952	6.79	6.65 ^[b]
14,211 Abertis Infraestructuras	198	0.19	
480 Acciona	34	0.03	
1,883 Acerinox	25	0.02	
3,170 ACS Actividades	95	0.09	
1,221 Aena	165	0.16	
7,809 Amadeus IT Holdings	342	0.33	
91,887 Banco de Sabadell	128	0.13	
50,286 Banco Popular Español	41	0.04	

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Spain (continued)			
263,363 Banco Santander	1,351	1.32	
94,365 Bankia	88	0.09	
17,305 Bankinter	126	0.12	
119,142 BBVA	734	0.72	
68,051 Caixabank	223	0.22	
12,596 Distribuidora Internacional de Alimentación (DIA)	66	0.06	
4,268 Enagas	99	0.10	
5,544 Endesa	110	0.11	
9,130 Ferrovial	164	0.16	
4,280 Gamesa Tecnológica	89	0.09	
5,643 Gas Natural	103	0.10	
10,358 Grifols 'A'	214	0.21	
394 Grifols 'B'	6	0.01	
108,114 Iberdrola	676	0.66	
20,086 Inditex	607	0.59	
18,101 Mapfre	52	0.05	
8,556 Red Electrica	146	0.14	
20,210 Repsol	283	0.28	
81,254 Telefónica	787	0.77	
Sweden	6,687	6.53	6.32
6,500 Alfa Laval	111	0.11	
18,571 Assa Abloy	341	0.33	
17,795 Atlas Copco	548	0.54	
7,261 Boliden	209	0.20	
4,997 Electrolux 'B'	125	0.12	
57,383 Ericsson 'B'	351	0.34	
2,000 Fastighets AB Bald	41	0.04	
3,699 Getinge	59	0.06	
17,885 Hennes & Mauritz	447	0.44	
5,203 Hexagon	197	0.19	
7,251 Husqvarna	58	0.06	
6,912 Industrivarden	138	0.13	
8,796 Investor	328	0.32	
3,824 Kinnevik	97	0.09	
700 Latour Investment	26	0.03	
4,046 Lundin Petroleum	78	0.08	
59,407 Nordea Bank	653	0.64	
20,962 Sandvik	269	0.26	
5,623 Securitas	80	0.08	
26,644 Skandinaviska Enskilda	288	0.28	
6,843 Skanska	154	0.15	
7,729 SKF	138	0.13	
11,499 Svenska Cellulosa	331	0.32	
28,237 Svenska Handelsbanken	370	0.36	
19,900 Swedbank	462	0.45	
3,900 Swedish Match	114	0.11	
5,763 Tele2	48	0.05	
51,517 TeliaSonera	195	0.19	
4,000 Trelleborg	77	0.08	
28,710 Volvo	354	0.35	
Switzerland	20,294	19.82	20.10
35,923 ABB (Regd.)	765	0.75	
1,805 Actelion (Regd.)	457	0.45	
3,182 Adecco (Regd.)	214	0.21	
1,965 ARYZTA	59	0.06	
924 Baloise Holdings (Regd.)	113	0.11	
4,500 Clariant (Regd.)	79	0.08	
9,350 Compagnie Financière Richemont (Regd.)	649	0.63	
39,633 Credit Suisse Group (Regd.)	570	0.56	
951 Dufry	130	0.13	
150 EMS-Chemie Holdings	81	0.08	
105 Galenica	116	0.11	

M&G European Index Tracker Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Switzerland (continued)			
694 Geberit	282	0.27	
184 Givaudan	314	0.31	
130 Helvetia Holding	69	0.07	
4,176 Julius Baer Gruppe (Regd.)	193	0.19	
1,203 Kuehne & Nagel	160	0.16	
9,003 LafargeHolcim (Regd.)	482	0.47	
4 Lindt & Sprüngli	243	0.24	
1,089 Lonza Group (Regd.)	186	0.18	
57,698 Nestlé (Regd.)	4,009	3.91	
44,197 Novartis (Regd.)	3,235	3.16	
676 Pargesa Holdings (Bearer)	42	0.04	
419 Partners Group (Regd.)	205	0.20	
864 PSP Swiss Property	76	0.07	
13,670 Roche Holding 'Genussscheine'	3,125	3.05	
1,178 Schindler Holding	211	0.20	
101 SGS (Regd.)	203	0.20	
40 Sika	212	0.21	
1,021 Sonova Holding	125	0.12	
203 Straumann Holding	81	0.08	
300 Sulzer (Regd.)	29	0.03	
785 Swatch Group (Bearer)	247	0.24	
570 Swiss Life Holdings (Regd.)	169	0.16	
1,287 Swiss Prime Site	105	0.10	
6,033 Swiss Re	509	0.50	
438 Swisscom (Regd.)	182	0.18	
1,727 Syngenta (Regd.)	700	0.68	
65,436 UBS Group	954	0.93	
2,750 Zurich Insurance	713	0.70	
Turkey	810	0.79	0.82
37,907 Akbank	86	0.08	
5,000 Anadolu Efes	26	0.03	
6,716 BIM Birlesik Magazalar	92	0.09	
36,266 Emlak Konut Gayrimenkul Yatirim	30	0.03	
25,194 ENKA	37	0.04	
26,183 Ereğli Demir Celik Fabrikalari	40	0.04	
11,000 Halkbank	32	0.03	
11,849 Koç Holding	46	0.04	
17,000 Sabancı Holdings	45	0.04	
3,620 Tofas Türk Otomobil	26	0.02	
2,890 Tüpraş	64	0.06	
15,000 Türk Telekom	22	0.02	
18,496 Turkcell İletisim	57	0.06	
14,050 Turkish Airlines	20	0.02	
43,932 Türkiye Garanti Bankası	99	0.10	
40,462 Türkiye İş Bankası	67	0.07	
15,000 Türkiye Vakıflar Bankası	21	0.02	
Futures contracts	2	0.00	0.09
8 Euro Stoxx 50 Index Mar 2017	2	0.00	
Portfolio of investments	101,973	99.61	99.36

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
'AAA' rated money market funds [c]	42	0.04	0.00
36,000 Northern Trust Global Fund - Sterling	42	0.04	
Total portfolio	102,015	99.65	99.36
Net other assets / (liabilities)	362	0.35	0.64
Net assets attributable to shareholders	102,377	100.00	100.00

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

[a] Delisted.

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

	€'000
Largest purchases	€'000
UniCredit	616
Nestlé (Regd.)	165
Daimler	146
Roche Holding 'Genussscheine'	126
Technip	122
Air Liquide	121
Novartis (Regd.)	118
Total	113
Sanofi	100
Anheuser-Busch InBev	78
Other purchases	3,732
Total purchases	5,437
Largest sales	€'000
Nestlé (Regd.)	538
Novartis (Regd.)	395
UniCredit	389
Roche Holding 'Genussscheine'	359
Total	235
Bayer	226
SAP	219
BASF	219
Siemens	218
Sanofi	211
Other sales	9,044
Total sales	12,053

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

M&G European Index Tracker Fund

Financial highlights

Fund performance

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

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

Index tracking

The tracking difference between the fund's investment return and that of the FTSE World Europe ex UK Index for the 12 month period ending 28 February 2017 was -0.05% (29 February 2016: +0.13%). The investment returns are calculated gross of fees using end of day pricing in order to be comparable with the index.

The historic tracking error of the investment return of the fund relative to the FTSE World Europe ex UK Index for the period ending 28 February 2017 was +0.22% (29 February 2016: +0.21%), which falls within the predicted tracking error range of 0% to 0.50%. Historic tracking error is a measure of the monthly volatility of the investment returns relative to the index over a 36 month period.

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

Fund level performance

Fund net asset value			
	28.02.17	31.08.16	31.08.15
as at	€'000	€'000	€'000
Fund net asset value (NAV)	102,377	102,173	86,817

Performance since launch

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



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

Long-term performance by share class				
	Six months 01.09.16 % [a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+9.3	+7.8	+10.8	+4.3 [c]
Sterling [d]				
Class 'A'	+11.1	+9.2	+11.3	+4.8 [e]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] Price to price with income reinvested.

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

M&G European Index Tracker Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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				
	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.01	0.01	0.01
Taxes	0.01	0.01	0.00	0.01
Costs before dilution adjustments	0.02	0.02	0.01	0.02
Dilution adjustments ^[c]	(0.02)	(0.02)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.00	0.00	0.00	0.00
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.05	0.05	0.09	0.06

^[a] Average of first three columns.

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

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

M&G European Index Tracker Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	1,735.75	1,750.80	1,607.88
Return before operating charges and after direct portfolio transaction costs	142.29	(2.98)	155.33
Operating charges	(6.22)	(12.07)	(12.41)
Return after operating charges	136.07	(15.05)	142.92
Distributions	n/a	(39.96)	(37.17)
Retained distributions	n/a	39.96	37.17
Closing NAV	1,871.82	1,735.75	1,750.80
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.15	0.34	0.11
Dilution adjustments ^[b]	(0.15)	(0.33)	(0.11)
Total direct portfolio transaction costs	0.00	0.01	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.70	0.71	0.70
Return after operating charges	+7.84	-0.86	+8.89
Historic yield	2.07	2.26	2.19
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	20,751	25,400	3,468
Closing NAV percentage of total fund NAV (%)	20.27	24.86	3.99
Number of shares	1,108,615	1,463,365	197,978
Highest share price (Euro ¢)	1,901.38	1,894.95	2,010.19
Lowest share price (Euro ¢)	1,679.68	1,499.74	1,460.45

Sterling Class 'A' Income share performance

The share class was launched on 31 January 2000.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	71.20	63.53	64.65
Return before operating charges and after direct portfolio transaction costs	6.21	9.81	0.73
Operating charges	(0.26)	(0.46)	(0.47)
Return after operating charges	5.95	9.35	0.26
Distributions	n/a	(1.68)	(1.38)
Closing NAV	77.15	71.20	63.53
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.00
Dilution adjustments ^[b]	(0.01)	(0.01)	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.71	0.70	0.70
Return after operating charges	+8.36	+14.72	+0.40
Historic yield ^[c]	2.63	2.33	2.23
Effect on yield of charges offset against capital	0.65	0.00	0.00
Other information			
Closing NAV (€'000)	40,225	37,258	38,927
Closing NAV percentage of total fund NAV (%)	39.29	36.47	44.84
Number of shares	44,430,998	44,387,941	44,913,511
Highest share price (UK p)	79.01	75.31	73.26
Lowest share price (UK p)	69.44	58.38	58.65

Sterling Class 'A' Accumulation share performance

The share class was launched on 31 January 2000.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	99.60	86.83	86.48
Return before operating charges and after direct portfolio transaction costs	8.69	13.40	0.98
Operating charges	(0.37)	(0.63)	(0.63)
Return after operating charges	8.32	12.77	0.35
Distributions	n/a	(2.29)	(1.84)
Retained distributions	n/a	2.29	1.84
Closing NAV	107.92	99.60	86.83
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.02	0.01
Dilution adjustments ^[b]	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.71	0.70	0.70
Return after operating charges	+8.35	+14.71	+0.40
Historic yield	2.05	2.28	2.18
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	41,401	39,515	44,422
Closing NAV percentage of total fund NAV (%)	40.44	38.67	51.17
Number of shares	32,691,167	33,648,641	37,501,344
Highest share price (UK p)	110.53	102.93	98.00
Lowest share price (UK p)	97.13	79.80	78.79

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

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

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

M&G European Index Tracker Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Income				
Net capital gains / (losses)		7,254		(6,906)
Revenue	465		415	
Expenses	(339)		(295)	
Net revenue / (expense) before taxation	126		120	
Taxation	(20)		(27)	
Net revenue / (expense) after taxation		106		93
Total return before equalisation / distributions		7,360		(6,813)
Equalisation		(2)		(1)
Change in net assets attributable to shareholders from investment activities		7,358		(6,814)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		102,173		86,816
Amounts received on issue of shares	8,509		981	
Amounts paid on cancellation of shares	(15,684)		(2,484)	
		(7,175)		(1,503)
Dilution adjustments		21		3
Change in net assets attributable to shareholders from investment activities (see above)		7,358		(6,814)
Closing net assets attributable to shareholders		102,377		78,502

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	€'000	€'000
Assets		
Fixed assets		
Investments	102,015	101,521
Current assets		
Debtors	679	844
Cash and bank balances	258	1,442
Total assets	102,952	103,807
Liabilities		
Creditors		
Bank overdrafts	(32)	0
Distribution payable	0	(878)
Other creditors	(543)	(756)
Total liabilities	(575)	(1,634)
Net assets attributable to shareholders	102,377	102,173

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

M&G European Select Fund

Authorised Corporate Director's Report

Investment objective and policy

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

Investment approach

The M&G European Select Fund is a core European (ex UK) equity fund, investing in quality companies, with advantageous characteristic, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings.

The fund manager keeps the portfolio focused, generally holding between 25 and 35 well-understood stocks, which broadly fall into one of two 'buckets' – 'stable growth' and 'opportunities'. Stable growth companies are those that have a proven track record of producing stable earnings. These tend to possess differentiated business models with strong competitive positioning and pricing power. Opportunities companies are in the process of becoming sustainable returns businesses, and should be able to further optimise their returns profile.

Risk profile

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

The fund's focus is on quality businesses where an element of change is helping to drive their value, and these stocks could potentially experience a degree of illiquidity in times of market distress. The fund is a concentrated portfolio of between 25-35 holdings, but is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller companies, which can be more unpredictable and difficult to buy and sell. Diversification across countries, industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G European Select Fund delivered positive returns across all of its share classes.^[a] All share classes finished behind a comparable index, the FTSE World Europe ex UK Index. Over the six months, returns from the index were 13.1% and 11.1% in sterling and euros, respectively.

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

Investment performance

European stockmarkets delivered positive returns for the period under review, with encouraging prospects for economic growth and inflation, as well as a changing political landscape, helping to drive investor sentiment.

For most of the period, the market mood was arguably dominated by the run-up to, and aftermath of, the US presidential election. Following swirling speculation over what a Donald Trump victory might mean, his unexpected win sparked a significant, if not surprising, shift in investor sentiment, as the potential for reduced taxes and regulation, as well as a boost to spending on infrastructure, cheered investors. The mood was further enlivened by relatively robust economic data and good corporate results, all of which made investors more willing to take on risk. With that in mind, US stockmarkets hit record highs during the review period, and took other markets, including Europe, along for the ride.

The European financial sector particularly benefited from this improved mood, having previously been out of favour. As a result, our below-index position in the sector weighed on relative returns, as did stock selection within it. Our stockpicking in the consumer goods and healthcare sectors also dragged on performance. At the other end of the spectrum, sectors considered to be more 'defensive' (that is, those that have relatively predictable and stable earnings regardless of the state of the economy) underperformed for the period, as investors became more willing to take on risk. These included utilities and telecommunications, both of which lagged against the wider market,

M&G European Select Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

and our below-index positions in these sectors proved supportive for relative performance – stock selection within the industrials and oil & gas sectors also aided relative returns.

At a stock level, the largest detractor for the period was Denmark-listed multinational pharmaceutical company Novo Nordisk, which experienced share price weakness for much of the review period. This was in light of pricing pressure in the US for some of its products, exacerbated by comments from President Donald Trump concerning his determination to lower drug prices.

Diversified business services and distribution firm DCC dragged on returns as well. The Irish group saw investors taking profits following a strong run, as the company has experienced ongoing operational success, including solid organic growth and successful merger and acquisition activity (we closed the position during the period under review). It was a similar case for German flavours and fragrances manufacturer Symrise, its shares falling sharply in November despite reporting good numbers, as investors sold shares after an extended period of outperformance.

Other detractors included fast fashion retailer H&M and branded jewellery creator Pandora. H&M reported a drop in its annual net profits, largely due to higher purchasing costs from a strengthening US dollar. It also had to discount some of its product lines due to lower-than-expected sales, partly because customers held off buying new clothes in the spring amid colder weather. Pandora, meanwhile, reported slower revenue growth than anticipated for 2017, as well as squeezed margins in light of higher commodity prices; investors were disappointed as a result.

On the upside, the fund's largest contributor was Swedish copper and zinc producer Boliden. The company has delivered ongoing operational success in both its mining and smelting operations, in an environment of improving metal prices. Following the US elections, there was a surge in the price of industrial metals, in particular copper, in anticipation of a potential increase in infrastructure spending – Boliden's shares benefited.

Aeroplane engine manufacturer and aftermarket service provider MTU Aero Engines aided returns as well. MTU announced expectations for its highly profitable spare parts and maintenance business to generate increasing revenues into 2018, resulting in rising profit margins. The company also said it expected its commercial maintenance segment to lead in terms of growth rates through 2017.

Other supportive holdings included premium clothing retailer HUGO BOSS, which saw its share price rise strongly on reports that an activist shareholder had taken a stake in the company, and Anglo-Dutch consumer goods giant Unilever. In light of investors turning from 'defensive' companies, shares in Unilever had been suppressed for some time – they then rose sharply on news that competitor Kraft Heinz was seeking a £115 billion bid for the company. Unilever rejected the bid, while upgrading its profit expectations for the year, and announcing a 'comprehensive review of options' to improve value for shareholders.

Investment activities

We run a concentrated portfolio of between 25 and 35 holdings, maintaining a watchlist of around 120 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues, or 'disruptions', to create buying opportunities.

During the review period, two such opportunities presented themselves. The first was Topdanmark, Denmark's second-largest insurance company. Topdanmark is the market leader within non-life insurance, with a strong, conservative management team that is highly focused on good governance and delivering shareholder value. We see this as a high quality business where short-term pricing pressure in Denmark created the opportunity to buy the stock at an attractive valuation.

We also added a position in Linde, the world's second-largest supplier of industrial gases. Following a series of beneficial acquisitions, we believe Linde possesses some of the best assets in the industry, with the potential to improve the profitability of those assets. The company is engaged in highly visible long-term projects in captive markets, generates a lot of cash and is very profitable. The end of merger talks with competitor Praxair (which subsequently resumed) created our entry point.

Conversely, we exited a number of the fund's holdings during the period, further concentrating the portfolio (John William Olsen took over management in July 2016, and set about bringing the fund in line with his investment philosophy). These included hearing-aid manufacturer William Demant, food ingredients producer Christian Hansen, market research group GFK and precious metals recycler Umicore. In total, 11 positions left the portfolio during the period under review.

Outlook

Over the course of the review period we witnessed a shift in investor sentiment. In risk-averse markets, investors had preferred the perceived safety of more defensive parts of the market – most notably within the consumer staples sector – and were seemingly willing to pay any price to invest in these companies.

With the turn in mood, accelerated by the election of Donald Trump, investors have returned to looking at company fundamentals, and a focus on 'value' appears to be coming into favour. In this environment, there could be an expectation that a quality-biased portfolio will struggle, but we do not believe that our quality focus will preclude the fund from taking advantage of the rotation into value. This is because 'quality' is by no means limited to the defensive, stable, 'safe' stocks that previously attracted so much investor attention. We identify quality across sectors, investing in companies with a proven track record of value creation over the business cycle, irrespective of the sector in which they reside.

M&G European Select Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

Given the nature of the businesses in which we invest, and the balanced construction of our portfolio, we believe the fund is well positioned to take advantage of the current shift in investor sentiment. As long-term investors, we remain focused on the long-term value of the businesses in which we invest, and continue to be optimistic about their prospects.

John William Olsen

Fund manager

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

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

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

Investments

Portfolio statement

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Oil & gas producers	5,198	3.60	4.30
310,842 Statoil	5,198	3.60	
Chemicals	15,727	10.88	8.44
57,988 Bayer	6,022	4.17	
35,852 Linde	5,453	3.77	
72,548 Symrise	4,252	2.94	
Mining	3,450	2.39	2.07
119,870 Boliden	3,450	2.39	
Construction & materials	7,373	5.10	4.89 [a]
76,235 Kingspan Group	2,213	1.53	
96,505 LafargeHolcim (Regd.)	5,160	3.57	
Aerospace & defence	4,592	3.18	2.25 [a]
38,657 MTU Aero Engines	4,592	3.18	
Electronic & electrical equipment	4,821	3.33	2.18
75,369 Schneider Electric	4,821	3.33	
Industrial engineering	6,391	4.42	3.98 [a]
65,311 Andritz	3,233	2.24	
309,983 Oerlikon	3,158	2.18	
Industrial transportation	6,416	4.44	4.74
139,048 DSV	6,416	4.44	
Support services	11,401	7.89	7.50
158,192 Amadeus IT Holdings	6,927	4.79	
130,988 CTS EVENTIM	4,474	3.10	
Automobiles & parts	3,340	2.31	3.01
39,685 Bayerische Motoren Werke	3,340	2.31	
Food producers	14,683	10.16	10.24
100,457 Nestlé (Regd.)	6,980	4.83	
173,306 Unilever	7,703	5.33	
Leisure goods	2,323	1.61	2.81 [a]
154,288 Thule Group	2,323	1.61	

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Personal goods	9,909	6.86	6.81
76,087 HUGO BOSS	5,137	3.56	
44,334 Pandora	4,772	3.30	
Healthcare equipment & services	3,771	2.61	4.07
48,139 Fresenius Medical Care	3,771	2.61	
Pharmaceuticals & biotechnology	13,412	9.28	10.29
90,757 Novartis (Regd.)	6,643	4.60	
202,490 Novo-Nordisk	6,769	4.68	
General retailers	3,150	2.18	2.02
126,011 Hennes & Mauritz	3,150	2.18	
Media	0	0.00	3.98
Banks	15,371	10.63	8.27
572,356 ING Groep	7,392	5.11	
375,031 Svenska Handelsbanken	4,913	3.40	
243,672 UniCredit	3,066	2.12	
Non-life insurance	3,240	2.24	0.00
135,776 Topdanmark	3,240	2.24	
Financial services	0	0.00	2.60
Software & computer services	8,297	5.74	3.89
94,722 SAP	8,297	5.74	
Portfolio of investments	142,865	98.85	98.34
Net other assets / (liabilities)	1,656	1.15	1.66
Net assets attributable to shareholders	144,521	100.00	100.00

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

Largest purchases	€'000
Linde	6,235
Topdanmark	5,036
UniCredit	4,357
Novo-Nordisk	3,631
Nestlé (Regd.)	2,286
HUGO BOSS	2,014
SAP	1,717
Bayer	1,512
Roche Holding 'Genussscheine'	1,483
Novartis (Regd.)	1,473
Other purchases	22,950
Total purchases	52,694
Largest sales	€'000
Roche Holding 'Genussscheine'	9,185
Intrum Justitia	7,490
Publicis Groupe	6,813
Nestlé (Regd.)	6,263
adidas	5,784
Total	5,517
Logista	5,249
Bayer	4,915
DCC	4,671
ING Groep	4,480
Other sales	70,226
Total sales	130,593

M&G European Select Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

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

Fund level performance

Fund net asset value			
as at	28.02.17	31.08.16	31.08.15
	€'000	€'000	€'000
Fund net asset value (NAV)	144,521	212,077	230,134

Performance since launch

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



Ten-year performance

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



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

M&G European Select Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	Six months 01.09.16 % ^[a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro^[b]				
Class 'A'	+6.5	+7.3	+9.6	+2.9 ^[c]
Class 'C'	+6.9	+8.1	+10.4	+3.7 ^[c]
Sterling^[d]				
Class 'A'	+8.2	+8.7	+10.1	+9.5 ^[e]
Class 'I'	+8.6	+9.5	n/a	+13.4 ^[f]
Class 'R'	+8.5	+9.2	n/a	+13.1 ^[f]
Class 'X'	+8.2	+8.7	+10.1	+11.3 ^[g]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] Price to price with income reinvested.

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

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

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

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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				
	Six months to 28.02.17 %	Year to 31.08.16 %	Year to 31.08.15 %	Average ^[a] %
Direct portfolio transaction costs^[b]				
Broker commission	0.12	0.08	0.04	0.08
Taxes	0.01	0.03	0.01	0.02
Costs before dilution adjustments	0.13	0.11	0.05	0.10
Dilution adjustments ^[c]	(0.09)	(0.01)	(0.02)	(0.04)
Total direct portfolio transaction costs	0.04	0.10	0.03	0.06
as at				
Indirect portfolio transaction costs	28.02.17	31.08.16	31.08.15	Average^[a]
	%	%	%	%
Average portfolio dealing spread	0.06	0.07	0.12	0.08

[a] Average of first three columns.

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

[c] In respect of direct portfolio transaction costs.

M&G European Select Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 26 November 2001.

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,451.20	1,455.60	1,293.03
Return before operating charges and after direct portfolio transaction costs	86.32	19.74	188.35
Operating charges	(12.17)	(24.14)	(25.78)
Return after operating charges	74.15	(4.40)	162.57
Distributions	n/a	(12.33)	(13.37)
Retained distributions	n/a	12.33	13.37
Closing NAV	1,525.35	1,451.20	1,455.60
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.97	1.65	0.79
Dilution adjustments ^[b]	(0.63)	(0.08)	(0.28)
Total direct portfolio transaction costs	0.34	1.57	0.51
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	1.68	1.68	1.68
Return after operating charges	+5.11	-0.30	+12.57
Historic yield	0.80	0.78	0.99
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	2,175	1,890	1,990
Closing NAV percentage of total fund NAV (%)	1.50	0.89	0.86
Number of shares	142,569	130,264	136,654
Highest share price (Euro ¢)	1,542.69	1,569.06	1,643.68
Lowest share price (Euro ¢)	1,368.75	1,250.33	1,162.38

Euro Class 'C' Accumulation share performance

The share class was launched on 26 November 2001.

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,626.03	1,618.75	1,427.33
Return before operating charges and after direct portfolio transaction costs	96.98	22.10	205.80
Operating charges	(7.49)	(14.82)	(14.38)
Return after operating charges	89.49	7.28	191.42
Distributions	n/a	(25.73)	(23.50)
Retained distributions	n/a	25.73	23.50
Closing NAV	1,715.52	1,626.03	1,618.75
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.08	1.83	0.80
Dilution adjustments ^[b]	(0.71)	(0.09)	(0.28)
Total direct portfolio transaction costs	0.37	1.74	0.52
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	0.92	0.93	0.93
Return after operating charges	+5.50	+0.45	+13.41
Historic yield	1.48	1.51	1.52
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	28	27	27
Closing NAV percentage of total fund NAV (%)	0.02	0.01	0.01
Number of shares	1,650	1,650	1,650
Highest share price (Euro ¢)	1,734.83	1,748.34	1,826.27
Lowest share price (Euro ¢)	1,535.65	1,395.20	1,284.36

Sterling Class 'A' Income share performance

The share class was launched on 27 June 1977.

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,695.12	1,482.07	1,437.64
Return before operating charges and after direct portfolio transaction costs	109.46	253.28	80.09
Operating charges	(14.37)	(25.68)	(25.34)
Return after operating charges	95.09	227.60	54.75
Distributions	n/a	(14.55)	(10.32)
Closing NAV	1,790.21	1,695.12	1,482.07
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.14	1.76	0.78
Dilution adjustments ^[b]	(0.75)	(0.09)	(0.27)
Total direct portfolio transaction costs	0.39	1.67	0.51
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	1.67	1.68	1.69
Return after operating charges	+5.61	+15.36	+3.81
Historic yield ^[c]	2.18	0.79	0.76
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (€'000)	56,402	125,464	136,358
Closing NAV percentage of total fund NAV (%)	39.03	59.16	59.25
Number of shares	2,684,959	6,277,734	6,744,036
Highest share price (UK p)	1,811.42	1,756.96	1,642.50
Lowest share price (UK p)	1,616.13	1,364.92	1,296.11

M&G European Select Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 24 July 1972.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	2,543.44	2,204.69	2,123.67
Return before operating charges and after direct portfolio transaction costs	164.31	376.98	118.42
Operating charges	(21.62)	(38.23)	(37.40)
Return after operating charges	142.69	338.75	81.02
Distributions	n/a	(21.63)	(15.21)
Retained distributions	n/a	21.63	15.21
Closing NAV	2,686.13	2,543.44	2,204.69
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.72	2.61	1.15
Dilution adjustments ^[b]	(1.13)	(0.13)	(0.40)
Total direct portfolio transaction costs	0.59	2.48	0.75
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	+5.61	+15.36	+3.82
Historic yield	0.79	0.79	0.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	70,142	69,394	79,735
Closing NAV percentage of total fund NAV (%)	48.53	32.72	34.65
Number of shares	2,225,346	2,314,096	2,651,013
Highest share price (UK p)	2,717.95	2,613.79	2,426.47
Lowest share price (UK p)	2,424.93	2,030.57	1,914.87

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	1,536.67	1,343.51	1,303.34
Return before operating charges and after direct portfolio transaction costs	99.50	230.83	73.16
Operating charges	(7.24)	(12.90)	(13.08)
Return after operating charges	92.26	217.93	60.08
Distributions	n/a	(24.77)	(19.91)
Closing NAV	1,628.93	1,536.67	1,343.51
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.04	1.60	0.72
Dilution adjustments ^[b]	(0.68)	(0.08)	(0.25)
Total direct portfolio transaction costs	0.36	1.52	0.47
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	0.93	0.93	0.94
Return after operating charges	+6.00	+16.22	+4.61
Historic yield ^[c]	2.24	1.55	1.55
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (€'000)	6,776	6,655	5,540
Closing NAV percentage of total fund NAV (%)	4.69	3.14	2.41
Number of shares	354,512	367,341	302,291
Highest share price (UK p)	1,646.77	1,604.12	1,496.18
Lowest share price (UK p)	1,467.88	1,241.39	1,176.36

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	1,651.90	1,421.10	1,358.63
Return before operating charges and after direct portfolio transaction costs	106.95	244.43	75.86
Operating charges	(7.79)	(13.63)	(13.39)
Return after operating charges	99.16	230.80	62.47
Distributions	n/a	(26.22)	(20.65)
Retained distributions	n/a	26.22	20.65
Closing NAV	1,751.06	1,651.90	1,421.10
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.12	1.69	0.74
Dilution adjustments ^[b]	(0.73)	(0.08)	(0.26)
Total direct portfolio transaction costs	0.39	1.61	0.48
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	0.93	0.93	0.94
Return after operating charges	+6.00	+16.24	+4.60
Historic yield	1.47	1.53	1.52
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	5,859	5,572	3,074
Closing NAV percentage of total fund NAV (%)	4.05	2.63	1.34
Number of shares	285,115	286,115	158,562
Highest share price (UK p)	1,770.24	1,697.03	1,559.45
Lowest share price (UK p)	1,577.94	1,313.29	1,226.24

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	153.77	134.47	130.40
Return before operating charges and after direct portfolio transaction costs	9.96	23.02	7.27
Operating charges	(0.92)	(1.63)	(1.61)
Return after operating charges	9.04	21.39	5.66
Distributions	n/a	(2.09)	(1.59)
Closing NAV	162.81	153.77	134.47
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.16	0.07
Dilution adjustments ^[b]	(0.07)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.03	0.15	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	1.18	1.18	1.19
Return after operating charges	+5.88	+15.91	+4.34
Historic yield ^[c]	2.22	1.30	1.25
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (€'000)	181	181	146
Closing NAV percentage of total fund NAV (%)	0.13	0.09	0.06
Number of shares	94,710	99,710	79,710
Highest share price (UK p)	164.63	160.14	149.44
Lowest share price (UK p)	146.80	124.09	117.64

M&G European Select Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	163.58	141.08	135.22
Return before operating charges and after direct portfolio transaction costs	10.59	24.22	7.52
Operating charges	(0.98)	(1.72)	(1.66)
Return after operating charges	9.61	22.50	5.86
Distributions	n/a	(2.19)	(1.64)
Retained distributions	n/a	2.19	1.64
Closing NAV	173.19	163.58	141.08
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.11	0.17	0.07
Dilution adjustments ^[b]	(0.07)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.04	0.16	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	1.19	1.18	1.19
Return after operating charges	+5.87	+15.95	+4.33
Historic yield	1.24	1.28	1.22
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	69	41	41
Closing NAV percentage of total fund NAV (%)	0.05	0.02	0.02
Number of shares	34,000	21,000	21,000
Highest share price (UK p)	175.13	168.07	154.97
Lowest share price (UK p)	156.15	130.23	122.01

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,678.43	1,467.49	1,423.71
Return before operating charges and after direct portfolio transaction costs	108.43	250.76	79.41
Operating charges	(14.27)	(25.43)	(25.16)
Return after operating charges	94.16	225.33	54.25
Distributions	n/a	(14.39)	(10.47)
Closing NAV	1,772.59	1,678.43	1,467.49
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.13	1.74	0.77
Dilution adjustments ^[b]	(0.74)	(0.08)	(0.27)
Total direct portfolio transaction costs	0.39	1.66	0.50
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	+5.61	+15.35	+3.81
Historic yield ^[c]	2.18	0.79	0.78
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (€'000)	2,010	1,981	2,162
Closing NAV percentage of total fund NAV (%)	1.39	0.93	0.94
Number of shares	96,619	100,109	107,976
Highest share price (UK p)	1,793.58	1,739.64	1,626.62
Lowest share price (UK p)	1,600.21	1,351.48	1,283.57

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	2,516.67	2,181.50	2,101.31
Return before operating charges and after direct portfolio transaction costs	162.57	373.01	117.26
Operating charges	(21.39)	(37.84)	(37.07)
Return after operating charges	141.18	335.17	80.19
Distributions	n/a	(21.39)	(15.41)
Retained distributions	n/a	21.39	15.41
Closing NAV	2,657.85	2,516.67	2,181.50
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.70	2.59	1.14
Dilution adjustments ^[b]	(1.11)	(0.13)	(0.40)
Total direct portfolio transaction costs	0.59	2.46	0.74
Performance and charges	%	%	%
Direct portfolio transaction costs	0.04	0.10	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	+5.61	+15.36	+3.82
Historic yield	0.79	0.79	0.77
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	879	872	1,061
Closing NAV percentage of total fund NAV (%)	0.61	0.41	0.46
Number of shares	28,188	29,388	35,669
Highest share price (UK p)	2,689.33	2,586.27	2,400.94
Lowest share price (UK p)	2,399.39	2,009.19	1,894.71

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

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

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

M&G European Select Fund

Financial statements and notes

Financial statements

Statement of total return				
for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Income				
Net capital gains / (losses)		12,312		(14,381)
Revenue	614		990	
Expenses	(1,758)		(1,862)	
Net revenue / (expense) before taxation	(1,144)		(872)	
Taxation	(13)		(70)	
Net revenue / (expense) after taxation		(1,157)		(942)
Total return before equalisation		11,155		(15,323)
Equalisation		(68)		25
Change in net assets attributable to shareholders from investment activities		11,087		(15,298)

Statement of change in net assets attributable to shareholders				
for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		212,077		230,134
Amounts received on issue of shares	36,959		6,202	
Amounts paid on cancellation of shares	(115,741)		(10,270)	
		(78,782)		(4,068)
Dilution adjustments		138		9
Change in net assets attributable to shareholders from investment activities (see above)		11,087		(15,298)
Unclaimed distributions		1		1
Closing net assets attributable to shareholders		144,521		210,778

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet			
as at	28 February 2017	31 August 2016	
	€'000	€'000	
Assets			
Fixed assets			
Investments	142,865	208,559	
Current assets			
Debtors	1,580	1,861	
Cash and bank balances	481	3,733	
Total assets	144,926	214,153	
Liabilities			
Creditors			
Distribution payable	0	(1,203)	
Other creditors	(405)	(873)	
Total liabilities	(405)	(2,076)	
Net assets attributable to shareholders	144,521	212,077	

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G European Select Fund

Financial statements and notes

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M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investment objective and policy

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

Investment approach

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

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

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

Risk profile

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

The fund's focus is on smaller companies where the share price movement can be more unpredictable and the shares more difficult to buy and sell compared to those of larger companies. Diversification across countries, industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G European Smaller Companies Fund delivered positive returns across all of its share classes.^[a] All share classes finished ahead of a comparable index, the Euromoney Smaller European Companies Index. Over the six months, returns from the index were 12.6%, 10.5% and 4.2% in sterling, euros and US dollars respectively.

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

Investment performance

European stockmarkets delivered positive returns for the period under review, with encouraging prospects for economic growth and inflation, as well as a changing political landscape, helping to drive investor sentiment – smaller European companies delivered returns for the period that were in line with the wider European market.

For most of the period, the market mood was arguably dominated by the run-up to, and aftermath of, the US presidential election. Following swirling speculation over what a Donald Trump victory might mean, his unexpected win sparked a significant, if not surprising, shift in investor sentiment, as the potential for reduced taxes and regulation, as well as a boost to spending on infrastructure, cheered investors. The mood was further enlivened by relatively robust economic data and good corporate results, all of which made investors more willing to take on risk. With that in mind, US stockmarkets hit record highs during the review period, and took other markets, including Europe, along for the ride.

Among smaller European companies, the basic materials sector particularly benefited from this improved mood, having previously been out of favour. As a result, our below-index position in the sector weighed on relative returns, although this was more than made up for by positive stockpicking within the industrials, technology and oil & gas sectors. Our below-index positions in consumer services and financials also aided relative performance, as both sectors lagged for the period under review.

M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

At a stock level, the largest contributor for the period was AMS, a company that develops and manufactures high-performance sensors for applications across a wide range of industries. AMS reported that it saw potential for strong revenue growth in 2017, helped by its acquisition of optical sensor maker Heptagon in Singapore; its shares rose sharply in reaction. Investors are also expecting the company to benefit from the expected launch of the iPhone 8 in September 2017, further boosting sentiment.

Web advertising specialist Criteo delivered solid performance for the period as well. The company's shares fell sharply after a note was published outlining, what the note's author believed to be, bad business practices at the company. We thought the thesis of this note was not justified, and bought into the accompanying share price weakness, benefiting when the shares bounced back soon after. The stock, a French business listed in the US, was also aided by a stronger US dollar.

Other supportive holdings included German engine manufacturer Deutz and Austrian construction company PORR. Deutz saw its shares rising steadily for most of the review period, having experienced ongoing operational success, including solid sales and improving earnings. PORR, meanwhile, has been buoyed by the increasing consideration of new stimulus measures by European governments, as this could involve infrastructure construction – PORR has particular expertise in tunnelling, and has been moving into infrastructure more generally, including projects in Norway.

On the downside, one of the fund's largest detractors was French warehouse outsourcing specialist ID Logistics. In September the company published results that fell short of expectations, largely as a result of weaker currencies in Argentina, Brazil and South Africa, where it has operations. Also, despite good performance in its home market of France, margins fell in its international business, in part due to the cost of contract start-ups in Europe during the period, along with a difficult operating environment in some developing countries; investors were disappointed and the company's shares declined.

UK-listed healthcare technology company EMIS dragged on returns as well. A major supplier to the UK's National Health Service, the company announced that new rollouts of its systems in Northern Ireland were progressing more slowly than had previously been expected, while facing an increasingly difficult operating environment as a result of NHS funding pressures.

Other detractors included branded jewellery creator Pandora, which reported slower revenue growth than anticipated for 2017, as well as squeezed margins in light of higher commodity prices, and diversified business services and distribution firm DCC. The Irish group saw investors taking profits following a strong run, as the company has experienced ongoing operational success, including solid organic growth and successful merger and acquisition activity.

Investment activities

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

During the review period, three such opportunities presented themselves. The first was allergy immunotherapy specialist ALK-Abelló. ALK is a quality company that specialises in autoimmune therapy for dust mite and grass allergies. These treatments used to be injectable, which could result in sometimes fatal allergic reactions, but ALK has developed much safer, and easier to administer, pills. These have been approved for distribution to adults in Europe, and the company now aims to get approval for the treatment of asthma in children in Europe and passport the adult approval to the US (the share price declined on news that US pharma Merck had opted out of a joint venture with ALK in the US – as the original deal was too small – providing our investment opportunity). ALK has a unique, well-protected, skill set and we believe is an amazing franchise, having existed since the early 1900s. We see strong growth potential for the business, particularly if its distribution strategy plays out.

We bought shares in AMS, the company mentioned above that develops and manufactures high-performance sensors. The stock had come under heavy selling pressure in light of the issues surrounding the Samsung Galaxy – i.e. exploding batteries. We see this as a one-off issue for the company, which provided the disruption that allowed us to buy the stock at an attractive price. The company's acquisition of Heptagon is also helping to solidify AMS' position in optical sensors and, as above, it should stand to benefit from the launch of Apple's 10-year anniversary iPhone late in 2017.

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

Conversely, we exited three of the fund's holdings during the period: medical packaging company Gerresheimer, which we had been reducing for some time, German specialist automotive parts producer ElringKlinger and Swedish credit management services and solutions business Intrum Justitia.

M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Outlook

2016 demonstrated the difficulties inherent in trying to make predictions. The two standout events that most failed to predict correctly were 'Brexit' and the US presidential election. But even if you had predicted correctly, you would have most probably been unsuccessful at forecasting the market rallies that followed.

We are not trying to make predictions – we are investing in quality companies where short-term disruptions have created buying opportunities. While the global political climate remains highly uncertain, the more localised exposure of European smaller companies should help minimise these risks. We also believe that European smaller companies are best placed to take advantage of the pro-growth measures recently announced in a number of European countries.

We will continue, as always, to remain mindful of short-term disruptions that can create opportunities to buy quality businesses at attractive valuations. As long-term investors, we remain comfortable with the fund's positioning, and will continue to monitor closely for such opportunities.

Michael Oliveros
Fund manager

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

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

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

Investments

Portfolio statement

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Oil & gas producers	1,993	1.28	1.15
1,816,692 Ophir Energy	1,993	1.28	
Oil equipment, services & distribution	5,611	3.62	3.32
40,063 Schoeller-Bleckmann	2,796	1.80	
77,084 Técnicas Reunidas	2,815	1.82	
Chemicals	3,187	2.05	2.06
59,589 Frutarom Industries	3,187	2.05	
Construction & materials	9,781	6.30	6.21^[a]
245,672 Arbonia (formerly AFG Arbonia-Forster-Holding AG)	3,829	2.47	
101,715 Kingspan Group	2,952	1.90	
79,220 PORR	3,000	1.93	
Aerospace & defence	2,899	1.87	1.77^[a]
84,965 LISI	2,899	1.87	
Electronic & electrical equipment	8,843	5.70	5.52^[a]
3,428 COMET Holding	3,547	2.29	
127,253 Datalogic	2,536	1.63	
77,734 EVS Broadcast Equipment	2,760	1.78	
Industrial engineering	16,515	10.64	9.42^[a]
73,140 Cargotec	3,338	2.15	
530,033 Deutz	2,991	1.93	
88,533 Jungheinrich Pref. (non-voting)	2,538	1.63	
225,412 Kongsberg Gruppen	3,599	2.32	
397,502 Oerlikon	4,049	2.61	
Industrial transportation	8,275	5.33	5.38^[a]
27,563 ID Logistics	3,848	2.48	
206,454 Logista	4,427	2.85	
Support services	14,963	9.64	8.91^[a]
115,637 Criteo ADR	5,400	3.48	
116,863 CTS EVENTIM	3,991	2.57	
36,012 DCC	2,914	1.88	
1,220,882 Equiniti	2,658	1.71	
Automobiles & parts	0	0.00	0.95^[a]
Food producers	3,108	2.00	3.67
485,610 Origin Enterprises	3,108	2.00	
Household goods & home construction	8,218	5.30	5.35^[a]
2,343,652 Cairn Homes	3,012	1.94	
82,930 Leifheit	5,206	3.36	
Leisure goods	4,651	3.00	3.41^[a]
308,901 Thule Group	4,651	3.00	
Personal goods	6,191	3.99	4.14^[a]
46,028 HUGO BOSS	3,108	2.00	
28,641 Pandora	3,083	1.99	
Healthcare equipment & services	6,396	4.12	6.66^[a]
7,284 Eurofins Scientific	2,812	1.81	
443,261 UDG Healthcare	3,584	2.31	
Pharmaceuticals & biotechnology	7,352	4.74	3.38
22,020 ALK-Abelló	2,740	1.77	
1,124,085 Indivior	4,612	2.97	
General retailers	9,665	6.23	5.04
350,000 AcadeMedia	2,095	1.35	
128,184 TAKKT	2,711	1.75	
244,446 WH Smith	4,859	3.13	

M&G European Smaller Companies Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Media	0	0.00	1.29
Banks	2,580	1.66	1.09
11,315,489 Bank of Ireland	2,580	1.66	
Non-life insurance	4,463	2.88	3.38
368,918 Jardine Lloyd Thompson Group	4,463	2.88	
Real estate investment trusts	1,488	0.96	1.12
139,233 Shaftesbury	1,488	0.96	
Financial services	11,411	7.35	9.85 [a]
288,998 FinTech Group	4,335	2.79	
184,100 GAM Holding (Regd.)	1,927	1.24	
236,777 Mutares	3,626	2.34	
92,582 MyBucks	1,523	0.98	
Software & computer services	10,582	6.82	6.54 [a]
297,823 EMIS Group	3,163	2.04	
287,861 Indra Sistemas	3,466	2.23	
33,078 Sopra Steria (formerly Sopra)	3,953	2.55	
Technology hardware & equipment	3,322	2.14	0.00
76,328 ams	3,322	2.14	
Portfolio of investments	151,494	97.62	99.61
'AAA' rated money market funds [b]	1,795	1.16	0.49
1,530,000 Northern Trust Global Fund - Sterling	1,795	1.16	
Total portfolio	153,289	98.78	100.10
Net other assets / (liabilities)	1,888	1.22	(0.10)
Net assets attributable to shareholders	155,177	100.00	100.00

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

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

Largest purchases	€'000
ALK-Abelló	2,781
AcadeMedia	2,145
ams	1,846
EMIS Group	1,138
Arbonia (formerly AFG Arbonia-Forster-Holding AG)	938
Bank of Ireland	869
Kongsberg Gruppen	811
ID Logistics	742
Criteo ADR	728
Deutz	725
Other purchases	1,738
Total purchases	14,459
Largest sales	€'000
Intrum Justitia	3,542
Gerresheimer Group	2,878
Chr. Hansen Holding	2,292
GFK	1,828
ElringKlinger	1,352
PORR	948
Deutz	865
Indivior	573
LISI	494
Criteo ADR	484
Other sales	5,176
Total sales	20,432

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

M&G European Smaller Companies Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

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

Fund level performance

Fund net asset value			
as at	28.02.17	31.08.16	31.08.15
	€'000	€'000	€'000
Fund net asset value (NAV)	155,177	140,323	164,977

Performance since launch

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



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

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

Long-term performance by share class

	Six months 01.09.16 % ^[a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro^[b]				
Class 'A'	+13.1	+10.1	+14.0	+8.3 ^[c]
Class 'C'	+13.5	+10.9	+14.9	+9.1 ^[c]
Sterling^[d]				
Class 'A'	+15.0	+11.5	+14.5	+10.9 ^[e]
Class 'I'	+15.4	+12.4	n/a	+18.3 ^[f]
Class 'R'	+15.2	+12.1	n/a	+18.0 ^[f]
Class 'X'	+15.0	+11.5	+14.5	+14.3 ^[g]
US dollar^[b]				
Class 'A'	+6.9	n/a	n/a	+4.3 ^[h]
Class 'C'	+7.3	n/a	n/a	+5.1 ^[h]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] Price to price with income reinvested.

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

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

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

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

M&G European Smaller Companies Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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				
	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.05	0.14	0.05	0.08
Taxes	0.02	0.10	0.05	0.06
Costs before dilution adjustments	0.07	0.24	0.10	0.14
Dilution adjustments ^[c]	(0.01)	(0.04)	(0.04)	(0.03)
Total direct portfolio transaction costs	0.06	0.20	0.06	0.11
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.24	0.28	0.32	0.28

^[a] Average of first three columns.

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

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

M&G European Smaller Companies Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	2,986.95	2,913.17	2,490.33
Return before operating charges and after direct portfolio transaction costs	388.92	123.09	468.29
Operating charges	(25.87)	(49.31)	(45.45)
Return after operating charges	363.05	73.78	422.84
Distributions	n/a	(18.19)	(10.45)
Retained distributions	n/a	18.19	10.45
Closing NAV	3,350.00	2,986.95	2,913.17
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.06	6.89	2.76
Dilution adjustments ^[b]	(0.12)	(1.30)	(1.18)
Total direct portfolio transaction costs	0.94	5.59	1.58
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+12.15	+2.53	+16.98
Historic yield	0.53	0.60	0.36
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	14,941	13,935	36,485
Closing NAV percentage of total fund NAV (%)	9.63	9.93	22.12
Number of shares	445,997	466,517	1,252,426
Highest share price (Euro ¢)	3,376.78	3,159.54	3,190.29
Lowest share price (Euro ¢)	2,918.05	2,560.14	2,170.86

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	3,327.96	3,221.24	2,733.43
Return before operating charges and after direct portfolio transaction costs	434.32	137.14	514.30
Operating charges	(15.92)	(30.42)	(26.49)
Return after operating charges	418.40	106.72	487.81
Distributions	n/a	(44.78)	(20.05)
Retained distributions	n/a	44.78	20.05
Closing NAV	3,746.36	3,327.96	3,221.24
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.17	7.67	2.90
Dilution adjustments ^[b]	(0.13)	(1.45)	(1.23)
Total direct portfolio transaction costs	1.04	6.22	1.67
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	0.94	0.94	0.94
Return after operating charges	+12.57	+3.31	+17.85
Historic yield	1.18	1.33	0.62
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	1,168	666	226
Closing NAV percentage of total fund NAV (%)	0.75	0.48	0.14
Number of shares	31,162	20,007	7,014
Highest share price (Euro ¢)	3,775.76	3,500.38	3,524.63
Lowest share price (Euro ¢)	3,255.55	2,840.49	2,385.15

Sterling Class 'A' Income share performance

The share class was launched on 30 September 1996.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	328.76	278.80	259.74
Return before operating charges and after direct portfolio transaction costs	44.63	56.95	24.97
Operating charges	(2.90)	(4.96)	(4.49)
Return after operating charges	41.73	51.99	20.48
Distributions	n/a	(2.03)	(1.42)
Closing NAV	370.49	328.76	278.80
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.69	0.27
Dilution adjustments ^[b]	(0.01)	(0.13)	(0.12)
Total direct portfolio transaction costs	0.11	0.56	0.15
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+12.69	+18.65	+7.88
Historic yield ^[c]	1.82	0.61	0.51
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (€'000)	92,421	83,808	87,706
Closing NAV percentage of total fund NAV (%)	59.56	59.73	53.16
Number of shares	21,259,104	21,621,923	23,059,236
Highest share price (UK p)	372.88	337.13	293.79
Lowest share price (UK p)	326.86	259.82	227.11

M&G European Smaller Companies Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 30 September 1996.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	345.71	291.37	270.10
Return before operating charges and after direct portfolio transaction costs	46.91	59.53	25.93
Operating charges	(3.05)	(5.19)	(4.66)
Return after operating charges	43.86	54.34	21.27
Distributions	n/a	(2.12)	(1.46)
Retained distributions	n/a	2.12	1.46
Closing NAV	389.57	345.71	291.37
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.73	0.28
Dilution adjustments ^[b]	(0.01)	(0.14)	(0.12)
Total direct portfolio transaction costs	0.11	0.59	0.16
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+12.69	+18.65	+7.87
Historic yield	0.53	0.61	0.50
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	25,047	23,174	26,374
Closing NAV percentage of total fund NAV (%)	16.14	16.52	15.99
Number of shares	5,479,211	5,685,714	6,634,714
Highest share price (UK p)	392.08	352.33	305.48
Lowest share price (UK p)	343.71	271.54	236.16

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,782.92	1,511.79	1,407.64
Return before operating charges and after direct portfolio transaction costs	242.63	310.47	136.14
Operating charges	(8.74)	(15.03)	(13.67)
Return after operating charges	233.89	295.44	122.47
Distributions	n/a	(24.31)	(18.32)
Closing NAV	2,016.81	1,782.92	1,511.79
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.64	3.79	1.50
Dilution adjustments ^[b]	(0.07)	(0.72)	(0.64)
Total direct portfolio transaction costs	0.57	3.07	0.86
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	0.93	0.94	0.94
Return after operating charges	+13.12	+19.54	+8.70
Historic yield ^[c]	1.88	1.35	1.21
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (€'000)	6,921	6,251	3,108
Closing NAV percentage of total fund NAV (%)	4.46	4.45	1.88
Number of shares	292,428	297,383	150,717
Highest share price (UK p)	2,029.34	1,841.32	1,601.29
Lowest share price (UK p)	1,773.17	1,413.61	1,231.99

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,873.64	1,567.32	1,442.01
Return before operating charges and after direct portfolio transaction costs	254.80	321.90	139.33
Operating charges	(9.20)	(15.58)	(14.02)
Return after operating charges	245.60	306.32	125.31
Distributions	n/a	(25.19)	(18.38)
Retained distributions	n/a	25.19	18.38
Closing NAV	2,119.24	1,873.64	1,567.32
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.68	3.93	1.54
Dilution adjustments ^[b]	(0.08)	(0.74)	(0.65)
Total direct portfolio transaction costs	0.60	3.19	0.89
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	0.94	0.94	0.94
Return after operating charges	+13.11	+19.54	+8.69
Historic yield	1.16	1.33	1.17
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	8,004	6,335	4,374
Closing NAV percentage of total fund NAV (%)	5.16	4.51	2.65
Number of shares	321,882	286,788	204,531
Highest share price (UK p)	2,132.42	1,908.97	1,640.23
Lowest share price (UK p)	1,863.26	1,465.56	1,262.08

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	177.97	151.00	140.64
Return before operating charges and after direct portfolio transaction costs	24.19	30.85	13.56
Operating charges	(1.10)	(1.90)	(1.71)
Return after operating charges	23.09	28.95	11.85
Distributions	n/a	(1.98)	(1.49)
Closing NAV	201.06	177.97	151.00
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.06	0.38	0.15
Dilution adjustments ^[b]	(0.01)	(0.07)	(0.06)
Total direct portfolio transaction costs	0.05	0.31	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.18	1.19	1.19
Return after operating charges	+12.97	+19.17	+8.43
Historic yield ^[c]	1.85	1.10	1.01
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (€'000)	137	131	139
Closing NAV percentage of total fund NAV (%)	0.09	0.09	0.08
Number of shares	58,204	62,372	67,372
Highest share price (UK p)	202.32	183.36	159.68
Lowest share price (UK p)	176.98	140.95	123.05

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Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	185.50	155.57	143.49
Return before operating charges and after direct portfolio transaction costs	25.21	31.88	13.82
Operating charges	(1.15)	(1.95)	(1.74)
Return after operating charges	24.06	29.93	12.08
Distributions	n/a	(2.04)	(1.52)
Retained distributions	n/a	2.04	1.52
Closing NAV	209.56	185.50	155.57
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.07	0.39	0.15
Dilution adjustments ^[b]	(0.01)	(0.07)	(0.06)
Total direct portfolio transaction costs	0.06	0.32	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.18	1.19	1.19
Return after operating charges	+12.97	+19.24	+8.42
Historic yield	0.95	1.09	0.97
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	221	197	191
Closing NAV percentage of total fund NAV (%)	0.14	0.14	0.12
Number of shares	90,000	90,000	90,000
Highest share price (UK p)	210.87	189.02	162.90
Lowest share price (UK p)	184.46	145.30	125.54

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	325.20	275.78	256.91
Return before operating charges and after direct portfolio transaction costs	44.15	56.34	24.70
Operating charges	(2.87)	(4.91)	(4.44)
Return after operating charges	41.28	51.43	20.26
Distributions	n/a	(2.01)	(1.39)
Closing NAV	366.48	325.20	275.78
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.69	0.27
Dilution adjustments ^[b]	(0.01)	(0.13)	(0.12)
Total direct portfolio transaction costs	0.11	0.56	0.15
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+12.69	+18.65	+7.89
Historic yield ^[c]	1.82	0.61	0.50
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (€'000)	4,056	3,650	3,922
Closing NAV percentage of total fund NAV (%)	2.61	2.60	2.38
Number of shares	943,099	951,988	1,042,491
Highest share price (UK p)	368.85	333.48	290.60
Lowest share price (UK p)	323.33	257.01	224.60

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	341.52	287.85	266.83
Return before operating charges and after direct portfolio transaction costs	46.35	58.79	25.62
Operating charges	(3.01)	(5.12)	(4.60)
Return after operating charges	43.34	53.67	21.02
Distributions	n/a	(2.09)	(1.47)
Retained distributions	n/a	2.09	1.47
Closing NAV	384.86	341.52	287.85
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.72	0.28
Dilution adjustments ^[b]	(0.01)	(0.14)	(0.12)
Total direct portfolio transaction costs	0.11	0.58	0.16
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.68	1.69	1.69
Return after operating charges	+12.69	+18.65	+7.88
Historic yield	0.53	0.61	0.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	2,104	2,032	2,400
Closing NAV percentage of total fund NAV (%)	1.36	1.45	1.45
Number of shares	465,807	504,507	611,019
Highest share price (UK p)	387.33	348.07	301.78
Lowest share price (UK p)	339.54	268.26	233.30

US dollar Class 'A' Accumulation share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,037.49	1,024.48	1,023.65
Return before operating charges and after direct portfolio transaction costs	79.07	30.60	18.06
Operating charges	(8.72)	(17.59)	(17.23)
Return after operating charges	70.35	13.01	0.83
Distributions	n/a	(6.22)	(4.25)
Retained distributions	n/a	6.22	4.25
Closing NAV	1,107.84	1,037.49	1,024.48
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.36	2.47	1.03
Dilution adjustments ^[b]	(0.04)	(0.47)	(0.44)
Total direct portfolio transaction costs	0.32	2.00	0.59
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	1.68	1.69	1.67
Return after operating charges	+6.78	+1.27	+0.08
Historic yield	0.56	0.59	0.42
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	152	139	48
Closing NAV percentage of total fund NAV (%)	0.10	0.10	0.03
Number of shares	14,538	14,938	5,300
Highest share price (US ¢)	1,115.76	1,084.49	1,082.94
Lowest share price (US ¢)	995.35	895.29	862.37

M&G European Smaller Companies Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,054.09	1,032.75	1,024.12
Return before operating charges and after direct portfolio transaction costs	79.89	30.67	17.30
Operating charges	(4.80)	(9.33)	(8.67)
Return after operating charges	75.09	21.34	8.63
Distributions	n/a	(14.26)	(11.72)
Retained distributions	n/a	14.26	11.72
Closing NAV	1,129.18	1,054.09	1,032.75
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.36	2.52	0.89
Dilution adjustments ^[b]	(0.04)	(0.48)	(0.38)
Total direct portfolio transaction costs	0.32	2.04	0.51
Performance and charges	%	%	%
Direct portfolio transaction costs	0.06	0.20	0.06
Operating charges	0.91	0.91	0.88
Return after operating charges	+7.12	+2.07	+0.84
Historic yield	1.25	1.33	1.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	5	5	4
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	500	500	500
Highest share price (US ¢)	1,137.68	1,099.90	1,091.10
Lowest share price (US ¢)	1,013.22	905.56	863.68

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

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

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

M&G European Smaller Companies Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Income				
Net capital gains / (losses)		17,444		(6,653)
Revenue	554		619	
Expenses	(1,147)		(1,244)	
Net revenue / (expense) before taxation	(593)		(625)	
Taxation	(3)		(9)	
Net revenue / (expense) after taxation		(596)		(634)
Total return before equalisation		16,848		(7,287)
Equalisation		(1)		50
Change in net assets attributable to shareholders from investment activities		16,847		(7,237)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		140,323		164,977
Amounts received on issue of shares	3,483		13,702	
Amounts paid on cancellation of shares	(5,488)		(34,287)	
		(2,005)		(20,585)
Dilution adjustments		12		75
Change in net assets attributable to shareholders from investment activities (see above)		16,847		(7,237)
Unclaimed distributions		0		1
Closing net assets attributable to shareholders		155,177		137,231

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	€'000	€'000
Assets		
Fixed assets		
Investments	153,289	140,468
Current assets		
Debtors	554	527
Cash and bank balances	1,446	112
Total assets	155,289	141,107
Liabilities		
Creditors		
Distribution payable	0	(626)
Other creditors	(112)	(158)
Total liabilities	(112)	(784)
Net assets attributable to shareholders	155,177	140,323

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G European Smaller Companies Fund

Financial statements and notes

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M&G Global Basics Fund

Authorised Corporate Director's Report

Investment objective and policy

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

Investment approach

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

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

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

Risk profile

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

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

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

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

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Global Basics Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.^[a] However, the fund's returns in all share classes lagged the comparative index, the FTSE Global Basics Composite Index. Over the six months, returns from the index were 15.0%, 13.0% and 6.5% in sterling, euros and US dollars respectively.

Over five years and since launch, the fund has delivered on its sole objective of long-term capital growth in sterling and euro terms, although not in US dollar terms.

Investment performance

The six months under review was a positive one for stockmarkets globally, with many recording solid gains. Investor attention remained focused on central bank policy, with the US Federal Reserve signalling gradual interest rate hikes and the European Central Bank holding its current course. Meanwhile, the Bank of Japan adjusted its policy in an attempt to hold long-term interest rates at ultra-low levels.

Towards the end of September, the oil price benefited from an agreement to cut production by the Organization of the Petroleum Exporting Countries (OPEC). Oil prices then remained firm for most of the period.

There was a significant shift in investor sentiment during the final quarter of 2016. In late summer, investors had already begun to challenge the widely held view that interest rates, economic growth and inflation would all stay low for some time.

However, following Donald Trump's victory in the US presidential election, expectations that taxes and regulations would be cut, giving the US economy a boost, became more prevalent. So too did the view that this would lead to higher inflation and interest rates, which contributed to a major switch out of fixed income assets (also known as bonds) into company shares, or equities. Although share price gains were more muted in the first two months of 2017, the S&P 500 Index still remained close to its all-time high.

M&G Global Basics Fund

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Investment review

Investment performance (continued)

Cyclical sectors (that is, sectors that tend to be more volatile throughout the economic cycle, such as financials, technology and materials) were in favour over the six months. Conversely, defensive sectors (that is, sectors that tend to remain more stable throughout the economic cycle, such as consumer goods and utilities) underperformed.

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

Defensive sectors lagged the broader market over the review period and a number of the fund's detractors came from this area of the market. This was partly due to the stocks being viewed as 'bond proxies' (because of their tendency to deliver steady income payments) and selling off as bond prices fell.

Shares in Irish food ingredients company Kerry Group fell as investors expressed concerns about a squeeze on the company's profit margins going forward, if it is unable to pass on the full impact of higher input costs.

Despite releasing a positive trading statement, investors took profits in UK-based personal care company PZ Cussons. To an extent, this was due to its exposure to Nigeria, one of its key markets, where trading remains challenging.

Ansell, an Australian manufacturer of protective products including products for the healthcare sector, was another notable detractor. The shares suffered on fears that rising rubber costs would squeeze margins.

Stock selection in the industrials sector also detracted. Shares in Germany-based industrial company GEA Group, one of the largest suppliers of process technology for the food industry, fell sharply after the company cut sales and profit estimates for the third quarter.

On a more positive note, another industrial stock fared more favourably. Shares in Rockwell Automation, a US manufacturer of automation software and equipment, rallied after quarterly earnings topped analysts' estimates and the company raised guidance for the current financial year. Rockwell also pointed to continued strong demand for its automation products used in car and consumer goods factories.

Meanwhile, Microsoft's share price soared to a record high at one point as third-quarter sales and earnings topped analysts' expectations. Revenue from the technology giant's cloud-based services more than doubled, even as demand for PCs remained in the doldrums and the company's mobile phone efforts collapsed.

While consumer goods stocks in general lagged the broader market, Bunge outperformed strongly. The company reported better-than-expected fourth-quarter earnings and was upbeat about its South American agribusiness, where it sees higher volumes and margins.

Elsewhere, shares in Hong Kong & Shanghai Hotels were buoyed by positive news on sales of luxury goods, as the hotel group owns a number of high-end shopping malls in Asia.

Investment activities

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

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

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

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

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

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

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

Outlook

We remain concerned about the backdrop faced by markets, particularly geopolitical and economic risks. Specifically, in Europe, there are a number of concerns around 'Brexit', as well as forthcoming elections in other countries and the health of some of the banks. We also have worries about weak economic growth in the region.

In the US, we are scrutinising the path of the US economy, in particular the pace of growth and implications for inflation and the direction of interest rates. Investors now appear to be pricing in several interest rate rises for 2017, which has led to long-term interest rates edging up.

In our view, this puts at risk the valuation of the market, which already stands on an elevated level. We believe the price-to-earnings multiples of companies could come under pressure as inflation expectations and interest rates rise. (The price-to-earnings multiple is the ratio for valuing a company that measures its current share price relative to its earnings per share.)

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Investment review

Outlook (continued)

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

Further afield, the possibility for Chinese economic growth to slow and its currency to come under greater pressure are also at the forefront of investors' minds.

We have a small cash position, which can be deployed to add to existing holdings or to introduce new companies to the fund that fulfil our quality, growth and valuation criteria, and which are likely to benefit from one or more of the themes we are currently focused on: health, security, infrastructure and the environment.

Jamie Horvat & Randeep Somel

Co-fund managers

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

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

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

Investments

Portfolio statement			
as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Belgium	0	0.00	1.95
Eire	88,955	3.44	3.69
1,157,824 Kerry Group	88,955	3.44	
France	67,259	2.60	2.58 [a]
100,000 Airbus	7,295	0.28	
193,556 Imerys	15,480	0.60	
660,064 Publicis Groupe	44,484	1.72	
Germany	274,389	10.61	8.34
912,575 GEA Group	35,714	1.38	
160,000 Linde	25,800	1.00	
625,069 Porsche Pref.	34,684	1.34	
628,356 Siemens	81,337	3.15	
1,558,754 Symrise	96,854	3.74	
Netherlands	92,524	3.58	3.20 [a]
400,000 Core Laboratories	46,264	1.79	
450,000 NXP Semiconductors	46,260	1.79	
Spain	23,209	0.90	0.87
500,000 Amadeus IT Holdings	23,209	0.90	
Switzerland	101,067	3.91	0.31
157,500 LafargeHolcim (Regd.)	8,928	0.35	
380,134 Roche Holding 'Genusschein'	92,139	3.56	

Portfolio statement (continued)			
as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
United Kingdom	417,692	16.14	15.88
2,800,000 BHP Billiton	45,369	1.75	
7,436,184 BP	41,706	1.61	
14,000,000 G4S	45,543	1.76	
1,850,000 Genus	40,090	1.55	
16,332,555 Hochschild Mining	53,395	2.06	
1,100,000 Hutchison China MediTech [b]	28,531	1.10	
1,314,000 MD Medical Group GDR	11,511	0.45	
20,820,370 PZ Cussons	82,130	3.18	
1,463,068 Unilever	69,417	2.68	
Australia	106,793	4.13	5.93
5,085,696 Ansell	83,034	3.21	
326,423 Australian Zircon [c]	0	0.00	
45,186,512 Starpharma	23,759	0.92	
Hong Kong	34,413	1.33	2.77
5,851,000 BYD	34,413	1.33	
Japan	136,678	5.28	5.27
1,615,800 Japan Tobacco	54,030	2.09	
4,800,000 Kirin Holdings	82,648	3.19	
Singapore	21,003	0.81	0.88
13,238,800 Delfi (formerly Petra Foods)	21,003	0.81	
United Arab Emirates	60,263	2.33	1.97
2,857,429 DP World	60,263	2.33	
Canada	94,532	3.65	3.42
1,602,850 Barrick Gold	30,310	1.17	
3,118,676 Dominion Diamond	26,513	1.02	
194,825 Franco Nevada	12,473	0.48	
3,310,661 Iamgold Corporation	12,942	0.50	
591,928 Osisko Gold Royalties	6,384	0.25	
112,582 Osisko Gold Royalties wts. 2019	167	0.01	
184,532 Stella-Jones	5,743	0.22	
United States	989,429	38.25	36.94
1,535,401 Alamos Gold	11,255	0.44	
32,180 Alphabet	26,680	1.03	
202,715 Becton Dickinson	37,054	1.43	
369,190 Booz Allen Hamilton	13,538	0.52	
644,224 Bunge	52,427	2.03	
530,685 Cal Maine Foods	20,140	0.78	
476,490 Honeywell International	59,509	2.30	
253,985 Jacobs Engineering Group	14,490	0.56	
651,193 Johnson & Johnson	79,700	3.08	
215,747 Matthews International	14,660	0.57	
875,000 MetLife	46,078	1.78	
2,000,749 Microsoft	128,488	4.97	
1,100,000 National Oilwell Varco	45,210	1.75	
674,462 Newmont Mining	22,911	0.89	
281,602 Raytheon	43,600	1.69	
305,738 ResMed	22,013	0.85	
500,000 Rockwell Automation	75,625	2.92	
941,414 Southern Copper Corporation	34,663	1.34	
608,862 The Scotts Miracle-Gro Company	54,962	2.12	
91,522 Thermo Fisher Scientific	14,504	0.56	
200,000 Time Warner	19,640	0.76	
546,516 United Parcel Service	58,324	2.25	
548,124 Welltower	38,385	1.48	
600,722 Yum China Holdings	16,226	0.63	
600,722 Yum! Brands	39,347	1.52	
Mexico	30,813	1.19	0.00
9,985,507 Grupo Mexico	30,813	1.19	
Portfolio of investments	2,539,019	98.15	94.00

M&G Global Basics Fund

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Investments

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Eire ('AAA' rated money market funds) ^[d]	15,101	0.58	0.56
12,139,000 Northern Trust Global Fund - Sterling	15,101	0.58	
Total portfolio	2,554,120	98.73	94.56
Net other assets / (liabilities)	32,919	1.27	5.44
Net assets attributable to shareholders	2,587,039	100.00	100.00

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

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

^[b] AIM quoted.

^[c] Delisted.

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

Top ten portfolio transactions

for the six months to 28 February 2017

Largest purchases	\$'000
Roche Holding 'Genussscheine'	90,349
Siemens	79,167
BYD	38,926
Welltower	38,816
Raytheon	38,687
Southern Copper Corporation	26,320
Alphabet	25,671
Grupo Mexico	25,425
lamgold Corporation	13,592
Alamos Gold	13,199
Other purchases	51,853
Total purchases	442,005
Largest sales	\$'000
United Technologies	109,655
Hongkong and Shanghai Hotels	82,581
Umicore	53,519
Elizabeth Arden	42,708
Ansell	33,394
Johnson & Johnson	29,208
The Scotts Miracle-Gro Company	23,213
Honeywell International	18,782
PrivateBancorp	15,164
Franco Nevada	14,223
Other sales	48,028
Total sales	470,475

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

M&G Global Basics Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

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

Fund level performance

Fund net asset value			
as at	28.02.17 \$'000	31.08.16 \$'000	31.08.15 \$'000
Fund net asset value (NAV)	2,587,039	2,675,498	3,084,200

Performance since launch

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



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

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

M&G Global Basics Fund

Financial highlights

Fund performance

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

Long-term performance by share class

	Six months 01.09.16 % [a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+6.9	+8.7	+4.2	+7.6 [c]
Class 'C'	+7.5	+9.8	+5.3	+8.6 [c]
Sterling [d]				
Class 'A'	+8.8	+10.4	+5.0	+7.8 [e]
Class 'I'	+9.2	+11.2	n/a	+8.9 [f]
Class 'R'	+9.1	+11.0	n/a	+8.6 [f]
Class 'X'	+8.8	+10.4	+5.0	+15.1 [g]
US dollar [b]				
Class 'A'	+1.0	-0.5	-0.5	+1.3 [h]
Class 'C'	+1.5	+0.5	+0.5	+2.3 [h]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] Price to price with income reinvested.

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

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

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

[h] 9 March 2007, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G Global Basics Fund

Financial highlights

Fund performance

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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				
	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.05	0.06	0.07	0.06
Taxes	0.01	0.01	0.01	0.01
Costs before dilution adjustments	0.06	0.07	0.08	0.07
Dilution adjustments ^[c]	(0.01)	(0.02)	(0.03)	(0.02)
Total direct portfolio transaction costs	0.05	0.05	0.05	0.05
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.26	0.22	0.30	0.26

^[a] Average of first three columns.

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

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

Specific share class performance

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

Euro Class 'A' Income share performance

The share class was launched on 12 July 2013.

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	2,824.63	2,518.66	2,541.54
Return before operating charges and after direct portfolio transaction costs	221.25	362.58	38.34
Operating charges	(27.45)	(49.99)	(52.29)
Return after operating charges	193.80	312.59	(13.95)
Distributions	n/a	(6.62)	(8.93)
Closing NAV	3,018.43	2,824.63	2,518.66
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.86	1.73	2.13
Dilution adjustments ^[b]	(0.11)	(0.59)	(0.82)
Total direct portfolio transaction costs	0.75	1.14	1.31
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.92	1.92	1.93
Return after operating charges	+6.86	+12.41	-0.55
Historic yield ^[c]	1.84	0.23	0.34
Effect on yield of charges offset against capital	1.90	0.00	0.00
Other information			
Closing NAV (\$'000)	4,416	3,857	2,750
Closing NAV percentage of total fund NAV (%)	0.17	0.14	0.09
Number of shares	137,983	122,547	96,805
Highest share price (Euro ¢)	3,059.28	2,871.59	3,031.34
Lowest share price (Euro ¢)	2,720.14	2,251.56	2,341.68

M&G Global Basics Fund

Financial highlights

Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	2,850.14	2,535.39	2,554.61
Return before operating charges and after direct portfolio transaction costs	223.20	364.89	33.22
Operating charges	(27.66)	(50.14)	(52.44)
Return after operating charges	195.54	314.75	(19.22)
Distributions	n/a	(6.63)	(8.98)
Retained distributions	n/a	6.63	8.98
Closing NAV	3,045.68	2,850.14	2,535.39
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.87	1.73	2.13
Dilution adjustments ^[b]	(0.11)	(0.59)	(0.82)
Total direct portfolio transaction costs	0.76	1.14	1.31
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.92	1.92	1.93
Return after operating charges	+6.86	+12.41	-0.75
Historic yield	0.22	0.23	0.34
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	1,708,315	1,723,401	1,663,773
Closing NAV percentage of total fund NAV (%)	66.03	64.41	53.95
Number of shares	52,907,273	54,269,623	58,178,164
Highest share price (Euro ¢)	3,086.90	2,890.75	3,040.77
Lowest share price (Euro ¢)	2,744.71	2,266.60	2,353.74

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	3,165.27	2,820.48	2,855.16
Return before operating charges and after direct portfolio transaction costs	248.90	407.44	34.79
Operating charges	(14.84)	(26.45)	(27.80)
Return after operating charges	234.06	380.99	6.99
Distributions	n/a	(36.20)	(41.67)
Closing NAV	3,399.33	3,165.27	2,820.48
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.97	1.87	2.52
Dilution adjustments ^[b]	(0.12)	(0.63)	(0.97)
Total direct portfolio transaction costs	0.85	1.24	1.55
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	0.93	0.94	0.91
Return after operating charges	+7.39	+13.51	+0.24
Historic yield ^[c]	1.82	1.13	1.49
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	1,185	28	31
Closing NAV percentage of total fund NAV (%)	0.05	0.00	0.00
Number of shares	32,892	792	978
Highest share price (Euro ¢)	3,444.76	3,245.64	3,419.69
Lowest share price (Euro ¢)	3,054.11	2,532.06	2,633.92

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	3,280.53	2,889.31	2,882.22
Return before operating charges and after direct portfolio transaction costs	257.88	418.62	35.67
Operating charges	(15.33)	(27.40)	(28.58)
Return after operating charges	242.55	391.22	7.09
Distributions	n/a	(37.16)	(42.05)
Retained distributions	n/a	37.16	42.05
Closing NAV	3,523.08	3,280.53	2,889.31
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.00	1.97	2.42
Dilution adjustments ^[b]	(0.12)	(0.67)	(0.93)
Total direct portfolio transaction costs	0.88	1.30	1.49
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	0.92	0.92	0.91
Return after operating charges	+7.39	+13.54	+0.25
Historic yield	1.04	1.12	1.46
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	21,209	15,885	33,040
Closing NAV percentage of total fund NAV (%)	0.82	0.59	1.07
Number of shares	567,852	434,591	1,013,811
Highest share price (Euro ¢)	3,570.13	3,325.82	3,452.14
Lowest share price (Euro ¢)	3,165.26	2,594.59	2,659.09

Sterling Class 'A' Income share performance

The share class was launched on 28 February 1973.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	776.01	597.91	655.77
Return before operating charges and after direct portfolio transaction costs	64.87	192.31	(43.09)
Operating charges	(6.65)	(10.77)	(11.02)
Return after operating charges	58.22	181.54	(54.11)
Distributions	n/a	(3.44)	(3.75)
Closing NAV	834.23	776.01	597.91
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.24	0.43	0.51
Dilution adjustments ^[b]	(0.03)	(0.14)	(0.20)
Total direct portfolio transaction costs	0.21	0.29	0.31
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.66	1.68	1.68
Return after operating charges	+7.50	+30.36	-8.25
Historic yield ^[c]	1.67	0.44	0.62
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	88,043	112,998	334,368
Closing NAV percentage of total fund NAV (%)	3.40	4.22	10.84
Number of shares	8,483,799	11,084,743	36,342,136
Highest share price (UK p)	844.50	807.24	706.13
Lowest share price (UK p)	755.91	566.54	575.15

M&G Global Basics Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 28 February 1973.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,184.36	908.28	989.92
Return before operating charges and after direct portfolio transaction costs	99.02	292.46	(65.06)
Operating charges	(10.16)	(16.38)	(16.58)
Return after operating charges	88.86	276.08	(81.64)
Distributions	n/a	(5.41)	(5.26)
Retained distributions	n/a	5.41	5.26
Closing NAV	1,273.22	1,184.36	908.28
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.37	0.65	0.77
Dilution adjustments ^[b]	(0.05)	(0.22)	(0.30)
Total direct portfolio transaction costs	0.32	0.43	0.47
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.67	1.67	1.68
Return after operating charges	+7.50	+30.40	-8.25
Historic yield	0.42	0.46	0.57
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	269,818	287,167	521,041
Closing NAV percentage of total fund NAV (%)	10.43	10.73	16.89
Number of shares	17,035,163	18,457,412	37,279,528
Highest share price (UK p)	1,288.90	1,226.59	1,065.98
Lowest share price (UK p)	1,153.67	860.56	868.26

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,289.26	992.84	1,089.93
Return before operating charges and after direct portfolio transaction costs	108.02	321.31	(72.26)
Operating charges	(6.11)	(9.96)	(10.16)
Return after operating charges	101.91	311.35	(82.42)
Distributions	n/a	(14.93)	(14.67)
Closing NAV	1,391.17	1,289.26	992.84
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.40	0.72	0.86
Dilution adjustments ^[b]	(0.05)	(0.24)	(0.33)
Total direct portfolio transaction costs	0.35	0.48	0.53
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	0.92	0.91	0.93
Return after operating charges	+7.90	+31.36	-7.56
Historic yield ^[c]	1.75	1.16	1.48
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	51,250	52,829	39,084
Closing NAV percentage of total fund NAV (%)	1.98	1.98	1.27
Number of shares	2,961,338	3,119,247	2,558,220
Highest share price (UK p)	1,407.07	1,350.29	1,179.08
Lowest share price (UK p)	1,256.20	941.22	962.98

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,358.59	1,034.05	1,118.54
Return before operating charges and after direct portfolio transaction costs	113.81	334.91	(74.06)
Operating charges	(6.43)	(10.37)	(10.43)
Return after operating charges	107.38	324.54	(84.49)
Distributions	n/a	(15.55)	(15.07)
Retained distributions	n/a	15.55	15.07
Closing NAV	1,465.97	1,358.59	1,034.05
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.42	0.75	0.88
Dilution adjustments ^[b]	(0.05)	(0.26)	(0.34)
Total direct portfolio transaction costs	0.37	0.49	0.54
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	0.92	0.91	0.93
Return after operating charges	+7.90	+31.39	-7.55
Historic yield	1.04	1.14	1.46
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	246,832	269,001	187,541
Closing NAV percentage of total fund NAV (%)	9.54	10.06	6.08
Number of shares	13,534,936	15,072,530	11,786,175
Highest share price (UK p)	1,482.71	1,406.61	1,210.14
Lowest share price (UK p)	1,323.72	980.30	988.35

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	129.01	99.37	109.06
Return before operating charges and after direct portfolio transaction costs	10.81	32.11	(7.23)
Operating charges	(0.78)	(1.27)	(1.28)
Return after operating charges	10.03	30.84	(8.51)
Distributions	n/a	(1.20)	(1.18)
Closing NAV	139.04	129.01	99.37
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.07	0.09
Dilution adjustments ^[b]	0.00	(0.02)	(0.03)
Total direct portfolio transaction costs	0.04	0.05	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.17	1.16	1.18
Return after operating charges	+7.77	+31.04	-7.80
Historic yield ^[c]	1.73	0.93	1.19
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (\$'000)	653	716	280
Closing NAV percentage of total fund NAV (%)	0.02	0.03	0.01
Number of shares	377,655	422,422	182,723
Highest share price (UK p)	140.67	134.82	117.78
Lowest share price (UK p)	125.69	94.19	96.11

M&G Global Basics Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	134.50	102.63	111.30
Return before operating charges and after direct portfolio transaction costs	11.26	33.56	(7.36)
Operating charges	(0.81)	(1.69)	(1.31)
Return after operating charges	10.45	31.87	(8.67)
Distributions	n/a	(1.24)	(1.21)
Retained distributions	n/a	1.24	1.21
Closing NAV	144.95	134.50	102.63
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.10	0.09
Dilution adjustments ^[b]	(0.01)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.03	0.07	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.17	1.17	1.18
Return after operating charges	+7.77	+31.05	-7.79
Historic yield	0.84	0.92	1.18
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	206	167	120
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.00
Number of shares	114,454	94,487	75,856
Highest share price (UK p)	146.66	139.27	120.22
Lowest share price (UK p)	131.04	97.27	98.10

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	778.58	599.87	657.87
Return before operating charges and after direct portfolio transaction costs	65.10	193.16	(43.26)
Operating charges	(6.68)	(10.85)	(11.04)
Return after operating charges	58.42	182.31	(54.30)
Distributions	n/a	(3.60)	(3.70)
Closing NAV	837.00	778.58	599.87
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.24	0.43	0.52
Dilution adjustments ^[b]	(0.03)	(0.15)	(0.20)
Total direct portfolio transaction costs	0.21	0.28	0.32
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.67	1.67	1.68
Return after operating charges	+7.50	+30.39	-8.25
Historic yield ^[c]	1.69	0.46	0.61
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	49,618	51,020	62,311
Closing NAV percentage of total fund NAV (%)	1.92	1.91	2.02
Number of shares	4,765,370	4,988,458	6,750,337
Highest share price (UK p)	847.31	810.07	708.37
Lowest share price (UK p)	758.41	568.41	576.98

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,172.74	899.35	980.19
Return before operating charges and after direct portfolio transaction costs	98.05	289.64	(64.43)
Operating charges	(10.06)	(16.25)	(16.41)
Return after operating charges	87.99	273.39	(80.84)
Distributions	n/a	(5.39)	(5.27)
Retained distributions	n/a	5.39	5.27
Closing NAV	1,260.73	1,172.74	899.35
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.36	0.64	0.77
Dilution adjustments ^[b]	(0.04)	(0.22)	(0.30)
Total direct portfolio transaction costs	0.32	0.42	0.47
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.67	1.67	1.68
Return after operating charges	+7.50	+30.40	-8.25
Historic yield	0.42	0.46	0.58
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	95,877	103,652	146,195
Closing NAV percentage of total fund NAV (%)	3.71	3.87	4.74
Number of shares	6,113,215	6,728,108	10,563,951
Highest share price (UK p)	1,276.26	1,214.56	1,055.50
Lowest share price (UK p)	1,142.35	852.09	859.72

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,119.41	1,010.49	1,191.51
Return before operating charges and after direct portfolio transaction costs	29.35	130.04	(155.80)
Operating charges	(10.55)	(19.18)	(21.33)
Return after operating charges	18.80	110.86	(177.13)
Distributions	n/a	(1.94)	(3.89)
Closing NAV	1,138.21	1,119.41	1,010.49
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.33	0.66	0.79
Dilution adjustments ^[b]	(0.04)	(0.22)	(0.30)
Total direct portfolio transaction costs	0.29	0.44	0.49
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.93	1.93	1.90
Return after operating charges	+1.68	+10.97	-14.87
Historic yield ^[c]	1.88	0.17	0.38
Effect on yield of charges offset against capital	1.90	0.00	0.00
Other information			
Closing NAV (\$'000)	49	36	5
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	4,336	3,215	431
Highest share price (US ¢)	1,143.30	1,147.93	1,194.36
Lowest share price (US ¢)	1,065.61	897.50	989.52

M&G Global Basics Fund

Financial highlights

Specific share class performance

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,126.12	1,014.12	1,194.76
Return before operating charges and after direct portfolio transaction costs	29.48	131.74	(159.07)
Operating charges	(10.59)	(19.74)	(21.57)
Return after operating charges	18.89	112.00	(180.64)
Distributions	n/a	(2.62)	(3.90)
Retained distributions	n/a	2.62	3.90
Closing NAV	1,145.01	1,126.12	1,014.12
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.33	0.68	0.88
Dilution adjustments ^[b]	(0.04)	(0.23)	(0.34)
Total direct portfolio transaction costs	0.29	0.45	0.54
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	1.92	1.92	1.90
Return after operating charges	+1.68	+11.04	-15.12
Historic yield	0.23	0.23	0.33
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	44,663	49,379	51,045
Closing NAV percentage of total fund NAV (%)	1.73	1.85	1.66
Number of shares	3,900,639	4,384,887	5,033,401
Highest share price (US ¢)	1,150.13	1,152.82	1,197.29
Lowest share price (US ¢)	1,071.99	901.35	989.30

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,191.41	1,074.84	1,272.22
Return before operating charges and after direct portfolio transaction costs	31.26	140.37	(170.46)
Operating charges	(5.37)	(9.95)	(10.71)
Return after operating charges	25.89	130.42	(181.17)
Distributions	n/a	(13.85)	(16.21)
Closing NAV	1,217.30	1,191.41	1,074.84
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.36	0.77	0.84
Dilution adjustments ^[b]	(0.04)	(0.26)	(0.33)
Total direct portfolio transaction costs	0.32	0.51	0.51
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	0.92	0.91	0.89
Return after operating charges	+2.17	+12.13	-14.24
Historic yield ^[c]	1.94	1.15	1.53
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	5	5	5
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	401	401	401
Highest share price (US ¢)	1,222.56	1,233.31	1,277.24
Lowest share price (US ¢)	1,136.53	958.78	1,064.16

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,235.00	1,101.07	1,284.26
Return before operating charges and after direct portfolio transaction costs	32.53	144.20	(171.98)
Operating charges	(5.58)	(10.27)	(11.21)
Return after operating charges	26.95	133.93	(183.19)
Distributions	n/a	(14.12)	(16.36)
Retained distributions	n/a	14.12	16.36
Closing NAV	1,261.95	1,235.00	1,101.07
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.36	0.74	0.95
Dilution adjustments ^[b]	(0.05)	(0.25)	(0.37)
Total direct portfolio transaction costs	0.31	0.49	0.58
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.05
Operating charges	0.92	0.92	0.89
Return after operating charges	+2.18	+12.16	-14.26
Historic yield	1.12	1.13	1.48
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	4,900	5,357	42,611
Closing NAV percentage of total fund NAV (%)	0.19	0.20	1.38
Number of shares	388,274	433,770	3,869,896
Highest share price (US ¢)	1,267.42	1,263.76	1,289.02
Lowest share price (US ¢)	1,178.19	982.44	1,073.98

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

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

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

M&G Global Basics Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		42,741		(133,132)
Revenue	24,788		27,955	
Expenses	(22,238)		(23,430)	
Net revenue / (expense) before taxation	2,550		4,525	
Taxation	(2,233)		(2,344)	
Net revenue / (expense) after taxation		317		2,181
Total return before equalisation		43,058		(130,951)
Equalisation		(33)		52
Change in net assets attributable to shareholders from investment activities		43,025		(130,899)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		2,675,498		3,084,200
Amounts received on issue of shares	24,712		150,581	
Amounts paid on cancellation of shares	(156,402)		(586,147)	
		(131,690)		(435,566)
Dilution adjustments		206		822
Change in net assets attributable to shareholders from investment activities (see above)		43,025		(130,899)
Unclaimed distributions		0		2
Closing net assets attributable to shareholders		2,587,039		2,518,559

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	\$'000	\$'000
Assets		
Fixed assets		
Investments	2,554,120	2,529,876
Current assets		
Debtors	15,274	55,232
Cash and bank balances	23,638	97,706
Total assets	2,593,032	2,682,814
Liabilities		
Creditors		
Bank overdrafts	(604)	0
Distribution payable	0	(1,365)
Other creditors	(5,389)	(5,951)
Total liabilities	(5,993)	(7,316)
Net assets attributable to shareholders	2,587,039	2,675,498

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G Global Leaders Fund

Authorised Corporate Director's Report

Investment objective and policy

The objective of the fund is to maximise long term total return (the combination of income and growth of capital). The fund invests in a wide range of global equities issued by companies that the fund manager considers to be, or have the potential to be, leading in their field in terms of improving shareholder value.

Investment approach

The fund manager selects shares in companies that he believes to be leading in their field, or have the potential to be leading in their field, in terms of improving shareholder value. Importantly, their prospects are not fully reflected in their share prices.

The approach has three core beliefs: i) management can make a big difference to the returns shareholders receive; ii) where management decide to allocate resources and capital is key – companies must concentrate resources on those business activities where they have an advantage relative to other companies and can create value; iii) the above factors are only attractive from an investment perspective if they are not yet reflected in the share price.

Stocks are selected on a bottom-up basis, that is the fund manager focuses on company fundamentals. He tends to avoid imposing top-down views, that is sector, country or currency selections do not drive stockpicking, but they will be taken into account where they impact on a particular stock or the risk profile of the broader portfolio. The fund usually holds between 50 and 80 stocks, with a typical holding period of three to five years.

Risk profile

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

The fund's focus is on companies undergoing positive internal change leading to improvements in return on capital, but where the change is not yet reflected in the share price. These stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller companies, which can be more unpredictable and difficult to buy and sell. Diversification across countries, industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has changed during this period. From 1 September 2016 to 30 December 2016 the risk number was 6.

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Global Leaders Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.^[a] However, the fund's returns in all share classes lagged the comparative index, the MSCI AC World Index. Over the six months, returns from the index were 17.2%, 15.1% and 8.5% in sterling, euros and US dollars respectively.)

Over five years and since launch, the fund has delivered on its investment objective of maximising long-term total return.

Investment performance

The six months under review was a positive one for stockmarkets globally, with many recording solid gains. Investor attention remained focused on central bank policy, with the US Federal Reserve signalling gradual interest rate hikes and the European Central Bank holding its current course. Meanwhile, the Bank of Japan adjusted its policy in an attempt to hold long-term interest rates at ultra-low levels.

Towards the end of September, the oil price benefited from an agreement to cut production by the Organization of the Petroleum Exporting Countries (OPEC). Oil prices then remained firm for most of the period.

There was a significant shift in investor sentiment during the final quarter of 2016. In late summer, investors had already begun to challenge the widely held view that interest rates, economic growth and inflation would all stay low for some time.

However, following Donald Trump's victory in the US presidential election, expectations that taxes and regulations would be cut, giving the US economy a boost, became more prevalent. So too did the view that this would lead to higher inflation and interest rates, which contributed to a major switch out of fixed income assets (also known as bonds) into company shares, or equities. Although share price gains were more muted in the first two months of 2017, the S&P 500 Index still remained close to its all-time high.

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Investment review

Investment performance (continued)

Cyclical sectors (that is, sectors that tend to be more volatile throughout the economic cycle, such as financials, technology and materials) were in favour over the six months. Conversely, defensive sectors (that is, sectors that tend to remain more stable throughout the economic cycle, such as consumer goods, healthcare and telecommunications) underperformed.

During the review period, the fund's relative performance was held back by a number of its holdings in the consumer discretionary sector, including Kingfisher, Amer Sports and Hanon Systems.

UK-based DIY retailer Kingfisher has reported mixed results in recent months. While third-quarter figures showed that sales were stronger than expected in the UK and Poland, in France, revenues at its Castorama and Brico stores fell by more than expected. However, we note that French consumer confidence appears to be improving, which should encourage consumers to increase spending on 'big ticket' items such as houses, which could benefit the DIY market going forward.

Amer Sports, a Finnish sporting goods company, also had a difficult six months. Third-quarter results revealed challenging trading conditions, especially in the US. This was followed by weaker-than-expected fourth-quarter sales and profits. Nevertheless, the company expects sales to increase in 2017.

Meanwhile, the share price of South Korean auto parts manufacturer Hanon Systems weakened on news that strikes at car manufacturers Hyundai Motor and Kia Motors would continue for longer than expected.

Healthcare stocks lagged the broader market over the six months and the fund's holding in Mallinckrodt detracted. US-based Mallinckrodt specialises in highly regulated raw materials. Shares in the company fell following news that the Food and Drug Administration (FDA) had proposed to withdraw approval of one of Mallinckrodt's generic drugs. The FDA believes that it does not have sufficient data to demonstrate that the drug is the bio-equivalent of the branded version. Separately, management warned that it expected further consolidation and pricing pressure in the generics sector.

Shares in another defensive company, Ingredion, also hurt performance. Ingredion is a manufacturer of corn-based starch and sweeteners. The company exports the excess high fructose corn syrup (HFCS) it produces and some investors are concerned these exports could be blocked, if US trade was adversely affected by the Trump presidency. However, we believe these fears are overdone as sweeteners, including HFCS, represent less than 10% of Ingredion's business.

On the other hand, the fund's above-index weighting in technology and stockpicking within the sector added value. Nvidia was the fund's top contributor and reported excellent results during the review period. The US-based company designs and manufactures high-performance graphics processing units used in high-end gaming computers. Nvidia also manufactures chips for use in data centres and autonomous driving platforms, demand for which is growing even faster.

Meanwhile, US-based technology company Xperi (formerly Tessera) appears to be enjoying increased investor interest following its recent purchase of DTS for US\$850 million. The acquisition creates a global innovator in premium audio and imaging solutions.

On the other hand, not holding shares in Apple detracted. Apple's share price rallied after the consumer technology giant reported better-than-expected record quarterly revenues and earnings for the period ending December 2016.

Financials were in favour during the review period and a holding in US investment bank Morgan Stanley added value, as its shares bounced on the back of a rally in the banking sector. Investors were hopeful that banking regulations would be eased following the election of Donald Trump.

Investment activities

For the M&G Global Leaders Fund, we select stocks from across the global investment universe, identifying companies that are undergoing positive change leading to improvements in return on capital. The observed improvements at the company must not yet be reflected in its share price.

Investment activity over the review period included the purchase of G4S, a UK-based global security, facilities management and cash solutions firm. Having expanded away from its core competencies in manned security and systems under the previous management team, the new chief executive officer has committed to rationalising the business portfolio and improving cashflow by exiting non-core businesses and regions. We believe investors are not giving management full credit for these improvements. Furthermore, with a strong market position and a favourable industry tailwind, there is an opportunity for G4S to increase revenues from higher margin services.

We also initiated a position in Scout24, a Germany-based provider of digital classified services for the real estate and automotive sectors which also operates in a number of other continental European markets. As the leading player in German real estate listings, the company has a unique opportunity to grow, in our opinion, in a market that is relatively late to move online.

Another Germany-based company, industrial group Siemens, also joined the portfolio. The new chief executive at Siemens has instigated a wide-ranging restructuring of the company, which we believe will improve profits going forward. Amongst the measures announced are the listing of Siemens' healthcare division and a focus on developing innovative technologies for 'the factory of the future', that is, 3D printing, lightweight robots and simulation.

In the US, we began holdings in SenesTech and Affiliated Managers. SenesTech is an early stage company with promising technology to manage animal pest populations. The company's first product – for use on rat populations – has received registration approval from the US Environmental Protection Agency.

Finally, Affiliated Managers is a diversified asset management firm that uses a partnership approach, which allows affiliates to retain autonomy, but overall, the company has the scale of a global asset manager. Affiliated trades on an attractive valuation relative to the sector and the market. The purchase was funded from the sale of Royal Bank of Scotland. We also exited the holding in American Airlines during the period.

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Investment review

Outlook

The potential for increased government spending combined with tax reforms from a Trump-led US government have tipped the odds in favour of faster economic growth and rising interest rates in the near term. Indeed, the US Federal Reserve has recently raised interest rates for the second time in a short space of time. However, our base case is that the forces of global excess capacity and technology are here to stay and economic activity is likely to be less buoyant than the more optimistic expectations in the market.

Japan remains the fund's most significant above-index position. Valuations of Japanese company shares are still attractive, but we accept that government initiatives at the policy level need to be followed through by governance reform at the corporate level. Hence, we believe that selecting companies that are proactively engaged in creating shareholder value will be a key differentiator in this market.

Aled Smith
Fund manager

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

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

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

Investments

Portfolio statement

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Equities	650,341	97.78	96.36
Oil & gas producers	21,631	3.25	2.47
391,886 Lundin Petroleum	7,976	1.20	
2,570,033 MEG Energy	13,655	2.05	
Oil equipment, services & distribution	3,679	0.55	0.61
334,568 Petrofac	3,679	0.55	
Chemicals	24,440	3.67	3.92 ^[a]
139,981 Akzo Nobel	9,334	1.40	
157,077 Avery Dennison	12,676	1.91	
300,000 SenesTech	2,430	0.36	
Construction & materials	10,947	1.65	1.48
446,600 LIXIL Group	10,947	1.65	
General industrials	24,102	3.62	1.77 ^[a]
138,542 ITT	5,873	0.88	
49,282 Parker Hannifin	7,695	1.16	
81,380 Siemens	10,534	1.58	

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Electronic & electrical equipment	45,604	6.85	8.58 ^[a]
215,800 Amano	4,349	0.65	
337,401 Jabil Circuit	8,870	1.33	
353,241 Knowles	6,754	1.02	
201,511 Motorola Solutions	15,976	2.40	
103,400 Nidec	9,655	1.45	
Industrial engineering	6,673	1.00	0.84
704,448 Bodycote	6,673	1.00	
Support services	28,921	4.35	2.22 ^[a]
80,918 Cimpress	6,583	0.99	
264,329 CoreLogic	10,391	1.56	
3,672,654 G4S	11,947	1.80	
Automobiles & parts	20,093	3.02	3.43
1,325,059 Hanon Systems	10,722	1.61	
105,415 Renault	9,371	1.41	
Food producers	15,172	2.28	2.80
125,806 Ingredion	15,172	2.28	
Household goods & home construction	35,604	5.35	5.37 ^[a]
2,710,954 Samsonite International	8,225	1.24	
79,085 Snap-on	13,527	2.03	
77,393 Whirlpool	13,852	2.08	
Leisure goods	10,097	1.52	2.06
427,461 Amer Sports	10,097	1.52	
Personal goods	4,059	0.61	0.88 ^[a]
605,752 Crocs	4,059	0.61	
Healthcare equipment & services	20,757	3.12	2.38
317,603 Mazor Robotics	3,645	0.55	
211,939 Medtronic	17,112	2.57	
Pharmaceuticals & biotechnology	86,416	12.99	14.05 ^[a]
65,301 Amgen	11,501	1.73	
3,918,060 Indivior	17,040	2.56	
216,998 Mallinckrodt Pharmaceuticals	11,846	1.78	
167,772 Novartis (Regd.)	13,018	1.96	
397,900 Otsuka	18,091	2.72	
690,800 Toho	14,920	2.24	
Food & drug retailers	11,223	1.69	1.77
137,861 CVS Health	11,223	1.69	
General retailers	49,661	7.47	7.23
33,433 Amazon	28,368	4.27	
1,514,304 Chegg	12,342	1.85	
2,203,158 Kingfisher	8,951	1.35	
Travel & leisure	13,669	2.06	2.76
516,593 MGM Resorts International	13,669	2.06	
Fixed line telecommunications	11,114	1.67	1.90
4,305,134 Spark New Zealand	11,114	1.67	
Banks	31,100	4.68	5.03
4,653,120 Intesa Sanpaolo	10,912	1.64	
147,713 KBC	9,072	1.37	
1,011,046 Sberbank of Russia ADR	11,116	1.67	
Non-life insurance	18,296	2.75	2.24
2,197,435 AIA Group	13,887	2.09	
712,511 Brasil Insurance	4,409	0.66	
Life insurance	12,883	1.94	1.42
244,649 MetLife	12,883	1.94	
Financial services	28,969	4.36	1.60
83,103 Affiliated Managers	14,041	2.11	
325,658 Morgan Stanley	14,928	2.25	

M&G Global Leaders Fund

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Investments

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Software & computer services	73,340	11.03	9.89 ^[a]
16,910 Alphabet	14,020	2.11	
1,596,786 Castlight Health	5,828	0.88	
484,276 Microsoft	31,100	4.68	
314,300 Nomura Research Institute	10,837	1.63	
2,528,710 Rocket Fuel	7,536	1.13	
114,690 Scout24	4,019	0.60	
Technology hardware & equipment	41,891	6.30	9.66
276,400 FUJIFILM Holdings	10,678	1.61	
124,391 NVIDIA	12,986	1.95	
494,616 Xperi	18,227	2.74	
Forward currency contracts	(461)	(0.07)	(0.18)
¥(4,528,370,700) Sold for \$39,900,000 (expires 13.03.17)	(461)	(0.07)	
Portfolio of investments	649,880	97.71	96.18
'AAA' rated money market funds ^[b]	17,999	2.71	2.66
17,999,000 Northern Trust Global Fund - US dollar	17,999	2.71	
Total portfolio	667,879	100.42	98.84
Net other assets / (liabilities)	(2,788)	(0.42)	1.16
Net assets attributable to shareholders	665,091	100.00	100.00

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

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

Largest purchases	\$'000
G4S	15,993
Affiliated Managers	11,858
Siemens	10,039
Scout24	3,969
Cimpress	3,789
Hanon Systems	3,625
Novartis (Regd.)	3,408
Mazor Robotics	3,399
MEG Energy	2,949
Xperi	2,454
Other purchases	12,050
Total purchases	73,533
Largest sales	\$'000
NVIDIA	31,537
Jabil Circuit	13,874
Otsuka	11,093
Motorola Solutions	10,910
Samsung Electronic Pref.	10,527
Microsoft	10,316
Amazon	9,590
American Airlines	8,793
Amgen	8,748
Indivior	8,745
Other sales	189,732
Total sales	313,865

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

M&G Global Leaders Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

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

Fund level performance

Fund net asset value			
as at	28.02.17 \$'000	31.08.16 \$'000	31.08.15 \$'000
Fund net asset value (NAV)	665,091	889,660	1,129,865

Performance since launch

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



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

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

M&G Global Leaders Fund

Financial highlights

Fund performance

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

Long-term performance by share class

	Six months 01.09.16 % [a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+11.1	+10.8	+11.2	+4.7 [c]
Class 'C'	+11.7	+11.9	+12.3	+5.7 [c]
Sterling [d]				
Class 'A'	+13.1	+12.5	+12.0	+8.4 [e]
Class 'I'	+13.5	+13.4	n/a	+15.1 [f]
Class 'R'	+13.4	+13.1	n/a	+14.8 [f]
Class 'X'	+13.1	+12.5	+12.0	+15.9 [g]
US dollar [b]				
Class 'A'	+5.0	+1.4	+6.1	+1.1 [h]
Class 'C'	+5.5	+2.4	+7.1	+2.1 [h]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] Price to price with income reinvested.

[e] 31 May 1985, the end of the initial offer period of the predecessor unit trust.

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

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

[h] 9 March 2007, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G Global Leaders Fund

Financial highlights

Fund performance

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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				
	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.12	0.09	0.08	0.10
Taxes	0.04	0.02	0.02	0.03
Costs before dilution adjustments	0.16	0.11	0.10	0.13
Dilution adjustments ^[c]	(0.06)	(0.03)	(0.02)	(0.04)
Total direct portfolio transaction costs	0.10	0.08	0.08	0.09
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.10	0.09	0.10	0.10

^[a] Average of first three columns.

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

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

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	1,821.78	1,692.43	1,587.27
Return before operating charges and after direct portfolio transaction costs	213.89	162.15	138.57
Operating charges	(18.22)	(32.80)	(33.41)
Return after operating charges	195.67	129.35	105.16
Distributions	0.00	(25.12)	(23.42)
Retained distributions	0.00	25.12	23.42
Closing NAV	2,017.45	1,821.78	1,692.43
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.51	1.94	1.74
Dilution adjustments ^[b]	(0.53)	(0.43)	(0.30)
Total direct portfolio transaction costs	0.98	1.51	1.44
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.92	1.93	1.92
Return after operating charges	+10.74	+7.64	+6.63
Historic yield ^[c]	0.00	1.36	1.39
Effect on yield of charges offset against capital	0.00	1.75	1.75

Other information

Closing NAV (\$'000)	347,059	337,851	361,500
Closing NAV percentage of total fund NAV (%)	52.18	37.98	31.99
Number of shares	16,226,812	16,644,312	18,936,761
Highest share price (Euro ¢)	2,050.41	1,887.58	1,956.28
Lowest share price (Euro ¢)	1,767.65	1,432.34	1,448.51

M&G Global Leaders Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	2,098.51	1,930.06	1,792.62
Return before operating charges and after direct portfolio transaction costs	247.04	186.44	155.04
Operating charges	(10.12)	(17.99)	(17.60)
Return after operating charges	236.92	168.45	137.44
Distributions	(3.26)	(28.79)	(26.60)
Retained distributions	3.26	28.79	26.60
Closing NAV	2,335.43	2,098.51	1,930.06
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.75	2.21	1.89
Dilution adjustments ^[b]	(0.62)	(0.49)	(0.32)
Total direct portfolio transaction costs	1.13	1.72	1.57
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	0.92	0.92	0.92
Return after operating charges	+11.29	+8.73	+7.67
Historic yield ^[c]	0.64	1.35	1.38
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (\$'000)	11,332	12,620	2,904
Closing NAV percentage of total fund NAV (%)	1.71	1.42	0.26
Number of shares	457,675	539,740	133,401
Highest share price (Euro ¢)	2,373.20	2,158.16	2,222.43
Lowest share price (Euro ¢)	2,039.78	1,640.86	1,637.98

Sterling Class 'A' Income share performance

The share class was launched on 31 May 1985.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	226.02	183.66	188.87
Return before operating charges and after direct portfolio transaction costs	27.78	48.69	2.39
Operating charges	(2.00)	(3.26)	(5.04)
Return after operating charges	25.78	45.43	(2.65)
Distributions	(1.41)	(3.07)	(2.56)
Closing NAV	250.39	226.02	183.66
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.22	0.30
Dilution adjustments ^[b]	(0.07)	(0.05)	(0.05)
Total direct portfolio transaction costs	0.12	0.17	0.25
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.67	1.68	1.67
Return after operating charges	+11.41	+24.74	-1.40
Historic yield ^[c]	1.43	1.35	1.40
Effect on yield of charges offset against capital	1.65	1.50	1.50
Other information			
Closing NAV (\$'000)	73,656	78,020	86,109
Closing NAV percentage of total fund NAV (%)	11.07	8.77	7.62
Number of shares	23,646,890	26,277,613	30,468,745
Highest share price (UK p)	256.59	232.15	210.63
Lowest share price (UK p)	221.04	166.93	172.92

Sterling Class 'A' Accumulation share performance

The share class was launched on 31 May 1985.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	540.04	432.49	438.75
Return before operating charges and after direct portfolio transaction costs	66.32	115.23	5.49
Operating charges	(4.73)	(7.68)	(11.75)
Return after operating charges	61.59	107.55	(6.26)
Distributions	0.00	(7.25)	(5.97)
Retained distributions	0.00	7.25	5.97
Closing NAV	601.63	540.04	432.49
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.45	0.52	0.70
Dilution adjustments ^[b]	(0.16)	(0.12)	(0.12)
Total direct portfolio transaction costs	0.29	0.40	0.58
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.66	1.68	1.67
Return after operating charges	+11.40	+24.87	-1.43
Historic yield ^[c]	0.06	1.33	1.38
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (\$'000)	141,301	370,937	593,342
Closing NAV percentage of total fund NAV (%)	21.25	41.70	52.51
Number of shares	18,879,562	52,287,354	89,155,188
Highest share price (UK p)	613.07	549.64	491.34
Lowest share price (UK p)	528.12	393.15	401.73

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	1,593.09	1,284.80	1,311.25
Return before operating charges and after direct portfolio transaction costs	196.14	342.51	10.95
Operating charges	(7.80)	(12.66)	(19.54)
Return after operating charges	188.34	329.85	(8.59)
Distributions	(9.94)	(21.56)	(17.86)
Closing NAV	1,771.49	1,593.09	1,284.80
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.35	1.56	2.13
Dilution adjustments ^[b]	(0.48)	(0.35)	(0.36)
Total direct portfolio transaction costs	0.87	1.21	1.77
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	0.92	0.93	0.92
Return after operating charges	+11.82	+25.67	-0.66
Historic yield ^[c]	1.43	1.34	1.39
Effect on yield of charges offset against capital	0.90	0.75	0.75
Other information			
Closing NAV (\$'000)	20,216	20,144	14,128
Closing NAV percentage of total fund NAV (%)	3.04	2.26	1.25
Number of shares	917,357	962,582	714,608
Highest share price (UK p)	1,813.67	1,635.80	1,469.16
Lowest share price (UK p)	1,558.45	1,171.73	1,201.73

M&G Global Leaders Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,692.89	1,345.59	1,354.84
Return before operating charges and after direct portfolio transaction costs	208.42	360.59	10.88
Operating charges	(8.29)	(13.29)	(20.13)
Return after operating charges	200.13	347.30	(9.25)
Distributions	(2.64)	(22.66)	(18.50)
Retained distributions	2.64	22.66	18.50
Closing NAV	1,893.02	1,692.89	1,345.59
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.43	1.64	2.19
Dilution adjustments ^[b]	(0.51)	(0.36)	(0.38)
Total direct portfolio transaction costs	0.92	1.28	1.81
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	0.92	0.93	0.92
Return after operating charges	+11.82	+25.81	-0.68
Historic yield ^[c]	0.66	1.33	1.38
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (\$'000)	28,475	26,899	18,318
Closing NAV percentage of total fund NAV (%)	4.28	3.02	1.62
Number of shares	1,209,182	1,209,558	884,644
Highest share price (UK p)	1,927.29	1,722.45	1,524.29
Lowest share price (UK p)	1,656.06	1,227.36	1,241.73

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	157.66	127.47	130.43
Return before operating charges and after direct portfolio transaction costs	19.41	33.92	1.26
Operating charges	(0.98)	(1.59)	(2.45)
Return after operating charges	18.43	32.33	(1.19)
Distributions	(0.98)	(2.14)	(1.77)
Closing NAV	175.11	157.66	127.47
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.13	0.15	0.21
Dilution adjustments ^[b]	(0.05)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.08	0.12	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.17	1.18	1.17
Return after operating charges	+11.69	+25.36	-0.91
Historic yield ^[c]	1.43	1.35	1.40
Effect on yield of charges offset against capital	1.15	1.00	1.00
Other information			
Closing NAV (\$'000)	275	259	285
Closing NAV percentage of total fund NAV (%)	0.04	0.03	0.03
Number of shares	126,402	125,054	145,058
Highest share price (UK p)	179.32	161.91	145.90
Lowest share price (UK p)	154.22	116.12	119.49

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	167.52	133.49	134.74
Return before operating charges and after direct portfolio transaction costs	20.61	35.70	1.29
Operating charges	(1.04)	(1.67)	(2.54)
Return after operating charges	19.57	34.03	(1.25)
Distributions	(0.04)	(2.24)	(1.84)
Retained distributions	0.04	2.24	1.84
Closing NAV	187.09	167.52	133.49
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.14	0.16	0.22
Dilution adjustments ^[b]	(0.05)	(0.04)	(0.04)
Total direct portfolio transaction costs	0.09	0.12	0.18
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.17	1.18	1.17
Return after operating charges	+11.68	+25.49	-0.93
Historic yield ^[c]	0.45	1.33	1.38
Effect on yield of charges offset against capital	0.00	1.00	1.00
Other information			
Closing NAV (\$'000)	277	260	217
Closing NAV percentage of total fund NAV (%)	0.04	0.03	0.02
Number of shares	119,175	118,031	105,597
Highest share price (UK p)	190.53	170.46	151.36
Lowest share price (UK p)	163.86	121.62	123.46

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	223.57	181.67	186.82
Return before operating charges and after direct portfolio transaction costs	27.48	48.16	2.37
Operating charges	(1.98)	(3.22)	(4.99)
Return after operating charges	25.50	44.94	(2.62)
Distributions	(1.39)	(3.04)	(2.53)
Closing NAV	247.68	223.57	181.67
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.22	0.30
Dilution adjustments ^[b]	(0.07)	(0.05)	(0.05)
Total direct portfolio transaction costs	0.12	0.17	0.25
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.67	1.68	1.67
Return after operating charges	+11.41	+24.74	-1.40
Historic yield ^[c]	1.43	1.35	1.40
Effect on yield of charges offset against capital	1.65	1.50	1.50
Other information			
Closing NAV (\$'000)	9,985	9,809	10,496
Closing NAV percentage of total fund NAV (%)	1.50	1.10	0.93
Number of shares	3,240,882	3,339,914	3,754,714
Highest share price (UK p)	253.80	229.64	208.34
Lowest share price (UK p)	218.64	165.12	171.04

M&G Global Leaders Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	532.97	426.82	433.00
Return before operating charges and after direct portfolio transaction costs	65.50	113.74	5.39
Operating charges	(4.72)	(7.59)	(11.57)
Return after operating charges	60.78	106.15	(6.18)
Distributions	0.00	(7.16)	(5.88)
Retained distributions	0.00	7.16	5.88
Closing NAV	593.75	532.97	426.82
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.45	0.52	0.69
Dilution adjustments ^[b]	(0.16)	(0.11)	(0.12)
Total direct portfolio transaction costs	0.29	0.41	0.57
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.67	1.68	1.67
Return after operating charges	+11.40	+24.87	-1.43
Historic yield ^[c]	0.06	1.33	1.38
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (\$'000)	21,855	21,650	23,877
Closing NAV percentage of total fund NAV (%)	3.29	2.43	2.11
Number of shares	2,958,891	3,092,350	3,635,414
Highest share price (UK p)	605.03	542.43	484.90
Lowest share price (UK p)	521.21	388.00	396.47

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,165.77	1,085.44	1,178.64
Return before operating charges and after direct portfolio transaction costs	74.22	90.34	(86.78)
Operating charges	(5.54)	(10.01)	(6.42)
Return after operating charges	68.68	80.33	(93.20)
Distributions	(1.72)	(15.88)	(14.91)
Retained distributions	1.72	15.88	14.91
Closing NAV	1,234.45	1,165.77	1,085.44
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.96	1.23	0.69
Dilution adjustments ^[b]	(0.34)	(0.27)	(0.12)
Total direct portfolio transaction costs	0.62	0.96	0.57
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	0.94	0.93	0.93
Return after operating charges	+5.89	+7.40	-7.91
Historic yield ^[c]	0.67	1.34	1.39
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (\$'000)	869	448	439
Closing NAV percentage of total fund NAV (%)	0.13	0.05	0.04
Number of shares	70,374	38,415	40,356
Highest share price (US ¢)	1,245.39	1,173.00	1,201.17
Lowest share price (US ¢)	1,129.18	927.60	1,040.74

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

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

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

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,061.40	998.21	1,094.68
Return before operating charges and after direct portfolio transaction costs	67.23	82.21	(83.52)
Operating charges	(10.25)	(19.02)	(12.95)
Return after operating charges	56.98	63.19	(96.47)
Distributions	0.00	(14.52)	(13.79)
Retained distributions	0.00	14.52	13.79
Closing NAV	1,118.38	1,061.40	998.21
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.85	1.12	0.67
Dilution adjustments ^[b]	(0.30)	(0.25)	(0.12)
Total direct portfolio transaction costs	0.55	0.87	0.55
Performance and charges	%	%	%
Direct portfolio transaction costs	0.10	0.08	0.08
Operating charges	1.92	1.93	1.92
Return after operating charges	+5.37	+6.33	-8.81
Historic yield ^[c]	0.00	1.35	1.40
Effect on yield of charges offset against capital	0.00	1.75	1.75
Other information			
Closing NAV (\$'000)	9,791	10,763	18,250
Closing NAV percentage of total fund NAV (%)	1.47	1.21	1.62
Number of shares	875,444	1,014,063	1,828,358
Highest share price (US ¢)	1,128.66	1,068.19	1,106.73
Lowest share price (US ¢)	1,026.26	849.23	963.83

M&G Global Leaders Fund

Financial statements and notes

Financial statements

Statement of total return				
for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		36,222		(79,276)
Revenue	5,106		7,252	
Expenses	(6,193)		(9,205)	
Net revenue / (expense) before taxation	(1,087)		(1,953)	
Taxation	(629)		(926)	
Net revenue / (expense) after taxation		(1,716)		(2,879)
Total return before distributions		34,506		(82,155)
Distributions		(588)		(5,291)
Change in net assets attributable to shareholders from investment activities		33,918		(87,446)

Statement of change in net assets attributable to shareholders				
for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders				
		889,660		1,129,865
Amounts received on issue of shares	34,339		46,401	
Amounts paid on cancellation of shares	(293,246)		(105,881)	
		(258,907)		(59,480)
Dilution adjustments		355		113
Change in net assets attributable to shareholders from investment activities (see above)		33,918		(87,446)
Retained distributions on Accumulation shares		57		4,642
Unclaimed distributions		8		8
Closing net assets attributable to shareholders		665,091		987,702

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet			
as at	28 February 2017	31 August 2016	
	\$'000	\$'000	
Assets			
Fixed assets			
Investments	668,340	880,985	
Current assets			
Debtors	2,577	3,756	
Cash and bank balances	340	9,484	
Total assets	671,257	894,225	
Liabilities			
Investment liabilities	(461)	(1,601)	
Creditors			
Bank overdrafts	(94)	0	
Distribution payable	(586)	(997)	
Other creditors	(5,025)	(1,967)	
Total liabilities	(6,166)	(4,565)	
Net assets attributable to shareholders	665,091	889,660	

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for reinvestment to Accumulation shares, the annual management charge is no longer offset against capital, reducing the amount available for reinvestment. For Income shares, in addition to the annual management charge, the administration charge is now offset against capital, increasing the amount available for distribution, whilst restraining capital performance to an equivalent extent.

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

M&G Global Leaders Fund

Financial statements and notes

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M&G Global Select Fund

Authorised Corporate Director's Report

Investment objective

The Fund aims to maximise long term total return (the combination of capital growth and income) by investing mainly in a wide range of global equities.

Investment policy

The Fund will invest globally (including the UK) in the equities of companies across a wide range of geographies, sectors and market capitalisations. Income is of secondary importance to capital growth when investments are selected. The Fund may at any time be concentrated in a limited number of equities.

Investment approach

The M&G Global Select Fund is a core global equity fund, investing in quality companies, with advantageous characteristics, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings.

The manager keeps the portfolio focused, generally holding between 30 and 40 well-understood stocks, which broadly fall into one of two 'buckets' – 'stable growth' and 'opportunities'. Stable growth companies are those that have a proven track record of producing stable earnings, tending to have very strong market positions or powerful brands, for example. Opportunities companies sit in out-of-favour corners of the market where change is not appreciated or risk is overstated. These tend to be less predictable, but with significant growth potential.

Risk profile

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

The fund's focus is on quality businesses where an element of change is helping to drive their value, and these stocks could potentially experience a degree of illiquidity in times of market distress. The fund is a concentrated portfolio of between 30 and 40 holdings, but is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Diversification across countries, industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Global Select Fund delivered positive total returns (the combination of income and growth of capital) across all of its share classes.^[a] All share classes, however, finished behind a comparable index, the MSCI World Index. Over the six months, returns from the index were 17.5%, 15.4% and 8.8% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has delivered positive total returns, and has remained invested in a diversified portfolio of company shares from anywhere in the world, thus meeting its investment objective.

Investment performance

Stockmarkets in developed countries delivered solid returns for the period under review, with positive prospects for global economic growth and inflation, as well as a changing political landscape, helping to drive investor sentiment.

For most of the period, the market mood was arguably dominated by the run-up to, and aftermath of, the US presidential election. Following swirling speculation over what a Donald Trump victory might mean, his unexpected win sparked a significant, if not surprising, shift in investor sentiment, as the potential for reduced taxes and regulation, as well as a boost to spending on infrastructure, cheered investors. The mood was further enlivened by relatively robust economic data and good corporate results, all of which made investors more willing to take on risk. With that in mind, US stockmarkets hit record highs during the review period, and took other markets, including Europe, along for the ride.

The financial sector was the largest beneficiary of this improved mood, as depressed valuations drew investor attention, particularly in the US. Financials had been out of favour for some time, and we had taken advantage of this to add to existing positions that we thought were looking particularly attractive. At the end of the period under review, nearly a quarter of the fund was invested in the sector, primarily in quality financial institutions in the US. As financials outperformed the

M&G Global Select Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

wider market, this proved supportive for relative returns, as did our selection of stocks within the sector.

Beyond financials, information technology and materials also delivered robust returns, and our below-index positions in these sectors weighed on performance. At the other end of the spectrum, sectors considered to be more 'defensive' (that is, those that have relatively predictable and stable earnings regardless of the state of the economy) underperformed for the period, as investors became more willing to take on risk. These included real estate, telecommunications, consumer staples and healthcare, all of which lagged against the wider market. Our below-index positions in the former three sectors proved helpful to relative performance, although our above-index position in healthcare – also representing nearly a quarter of the fund – as well as stock selection within the sector, dragged on returns for the period.

At a stock level, the two largest detractors for the period were both pharmaceutical companies – Israel-listed Teva and Danish multinational Novo Nordisk. Teva's shares, along with other generic drug makers, fell sharply in November on news that US prosecutors investigating potential collusion in the pricing of generic drugs could file charges by the end of 2016 – Teva was among those caught in the investigation's net. The company has also experienced legal challenges around patents on its branded multiple sclerosis treatment Copaxone, as well as additional issues affecting its generics division; its share price has been suppressed as a result.

Novo Nordisk, meanwhile, experienced share price weakness for much of the review period. This was in light of pricing pressure in the US for some of its products, exacerbated by comments from President Donald Trump concerning his determination to lower drug prices. We took advantage of the more attractive valuations to add to our position in the company, believing in the long-term sustainability of the business, despite the short-term issues affecting its share price.

In the retail space, some US retailers had a difficult time during the period under review, and this was reflected in the shares of US retailer operator L Brands (the company owns Victoria's Secret and Bath & Body Works, among others). L Brands' share price declined after the company reported a drop in same-store sales following a difficult holiday period, which continued into February. Underperformance was primarily driven by Victoria's Secret, which has felt pressure on sales on the back of the weaker store traffic seen throughout US retail, as well as reduced profit margins in light of discounting.

Within industrials, German food processing technology and component maker GEA detracted as well. GEA's shares suffered after the company reduced its guidance for the year, reflecting a 'lumpier'-than-expected order book in the dairy industry; investors were particularly unnerved by poor communication, as the company had previously confirmed a positive outlook.

Swiss global food and beverage company Nestlé and British consumer goods company Reckitt Benckiser also saw some share price weakness, as investors turned away from the perceived safety of consumer staples companies.

On the upside, our holdings in the financial sector added value for the period, with the largest contributor being M&T Bank, a community-based regional lender headquartered in New York. Direct banking and payments company Discover Financial Services, Japanese insurer Tokio Marine, credit card company American Express and financial institution Bank of New York Mellon all delivered strong returns as well.

Elsewhere, luxury jeweller Tiffany was also supportive. During the period under review, the company reached a deal with activist investors to appoint three independent directors to its board, who would help oversee the search for a new chief executive (CEO Fredric Cumenal left the company at the beginning of February). Investors anticipated that the new board members would help to accelerate Tiffany's modernisation, and its shares rose as a result.

Other notable holdings included fluid handling systems maker Graco, which published strong results during the period, and Time Warner. The multinational media company's share price rose sharply on news that US telecom conglomerate AT&T had agreed to acquire the company for US\$85.4 billion. The deal remained under regulatory scrutiny at the end of the review period.

Investment activities

We run a concentrated portfolio of between 30 and 40 holdings, maintaining a watchlist of around 300 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues, or 'disruptions', to create buying opportunities.

During the review period, two such opportunities presented themselves. The first was Linde, the world's second-largest supplier of industrial gases. Following a series of beneficial acquisitions, we believe Linde possesses some of the best assets in the industry, with the potential to improve the profitability of those assets. The company is engaged in highly visible long-term projects in captive markets, generates a lot of cash and is very profitable. The end of merger talks with competitor Praxair (which subsequently resumed) created our entry point.

Our other new purchase was Unilever, a high-quality producer of household and beauty products as well as food and beverages. Unilever is very long term, making strategic acquisitions over time to grow and diversify its business, and is stakeholder, not just shareholder, focused. Its shares weakened as investors turned from consumer staples companies, in favour of more growth oriented stocks, allowing us to purchase shares at what we believe to be an attractive valuation. The company is now, in light of an attempted (and subsequently called-off) takeover bid by rival Kraft Heinz, looking at shorter term optimisations in the business, and we believe we will see ongoing improvement in cashflows and profitability. We have watched the stock for some time, waiting for the right entry point, and believe that that patience has now paid off.

Conversely, we exited the fund's holdings in automotive seating and interiors business Adient, a small position that had been spun off from Johnson Controls last year, and cigarette maker British American Tobacco. This was in light of tougher regulations, new technologies – including 'vaping' – leading to increased competition and uncertainty, and a belief that tobacco companies were increasingly unlikely to produce the same level returns as they have in the past.

M&G Global Select Fund

Authorised Corporate Director's Report

Investment review

Outlook

Over the course of the review period we witnessed a shift in investor sentiment. In risk-averse markets, investors had preferred the perceived safety of more defensive parts of the market – most notably within the consumer staples sector – and were seemingly willing to pay any price to invest in these companies.

With the turn in mood, accelerated by the election of Donald Trump, investors have returned to looking at company fundamentals, and a focus on 'value' appears to be coming into favour. In this environment, there could be an expectation that a quality-biased portfolio will struggle, but we do not believe that our quality focus will preclude the fund from taking advantage of the rotation into value. This is because 'quality' is by no means limited to the defensive, stable, 'safe' stocks that previously attracted so much investor attention. We identify quality across sectors, investing in companies with a proven track record of value creation over the business cycle, irrespective of the sector in which they reside.

Given the nature of the businesses in which we invest, and the balanced construction of our portfolio, we believe the fund is well positioned to take advantage of the current shift in investor sentiment. As long-term investors, we remain focused on the long-term value of the businesses in which we invest, and continue to be optimistic about their prospects.

John William Olsen
Fund manager

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

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

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

Investments

Portfolio statement

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Oil equipment, services & distribution	17,877	2.15	1.90
434,953 National Oilwell Varco	17,877	2.15	
Chemicals	35,270	4.25	2.85
154,239 Bayer	16,981	2.05	
113,418 Linde	18,289	2.20	
General industrials	45,041	5.42	9.13
328,464 GEA Group	12,855	1.55	
345,897 Graco	32,186	3.87	
Electronic & electrical equipment	14,682	1.77	1.93
216,492 Schneider Electric	14,682	1.77	
Food producers	57,907	6.97	4.81
469,195 Nestlé (Regd.)	34,561	4.16	
495,418 Unilever	23,346	2.81	
Household goods & home construction	17,091	2.06	2.05
188,021 Reckitt Benckiser	17,091	2.06	
Personal goods	26,923	3.24	2.72
292,772 Tiffany & Co	26,923	3.24	
Tobacco	0	0.00	2.99
Healthcare equipment & services	102,779	12.38	12.34
267,058 Becton Dickinson	48,815	5.88	
326,345 UnitedHealth Group	53,964	6.50	
Pharmaceuticals & biotechnology	78,138	9.41	10.53
5,147,139 Indivior	22,385	2.69	
1,023,012 Novo-Nordisk	36,258	4.37	
545,915 Teva Pharmaceuticals	19,495	2.35	
General retailers	63,460	7.64	7.69
225,704 L Brands	11,825	1.42	
241,099 Stericycle	20,105	2.42	
1,496,194 WH Smith	31,530	3.80	
Media	25,822	3.11	2.68
262,955 Time Warner	25,822	3.11	
Banks	59,891	7.21	6.63
1,342,858 ING Groep	18,386	2.21	
177,599 M&T Bank	29,828	3.59	
1,300,673 Standard Chartered	11,677	1.41	
Non-life insurance	63,083	7.59	8.37
494,530 American International Group	31,650	3.81	
717,500 Tokio Marine Holding	31,433	3.78	
Financial services	82,205	9.90	9.01
253,489 American Express	20,325	2.45	
661,055 Bank of New York Mellon	31,136	3.75	
429,388 Discover Financial Services	30,744	3.70	
Software & computer services	108,771	13.10	14.23
34,639 Alphabet	29,424	3.54	
195,029 Ansys	20,917	2.52	
146,573 International Business Machines	26,298	3.17	
500,349 Microsoft	32,132	3.87	

M&G Global Select Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Technology hardware & equipment	24,971	3.01	0.00
591,440 Johnson Controls	24,971	3.01	
Portfolio of investments	823,911	99.21	99.86
'AAA' rated money market funds ^[a]	3,758	0.45	0.13
3,758,000 Northern Trust Global Fund - US dollar	3,758	0.45	
Total portfolio	827,669	99.66	99.99
Net other assets / (liabilities)	2,811	0.34	0.01
Net assets attributable to shareholders	830,480	100.00	100.00

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

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

Top portfolio transactions

for the six months to 28 February 2017

Purchases	\$'000
Unilever	20,182
Linde	18,332
Novo-Nordisk	17,922
Stericycle	4,053
Reckitt Benckiser	2,036
WH Smith	1,616
Total purchases	64,141
Largest sales	\$'000
British American Tobacco	24,350
Shire	9,753
Tokio Marine Holding	9,680
UnitedHealth Group	6,864
Bayer	6,527
Microsoft	5,918
M&T Bank	5,399
Ansys	5,044
Alphabet	4,470
Adient	3,707
Other sales	27,920
Total sales	109,632

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

M&G Global Select Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

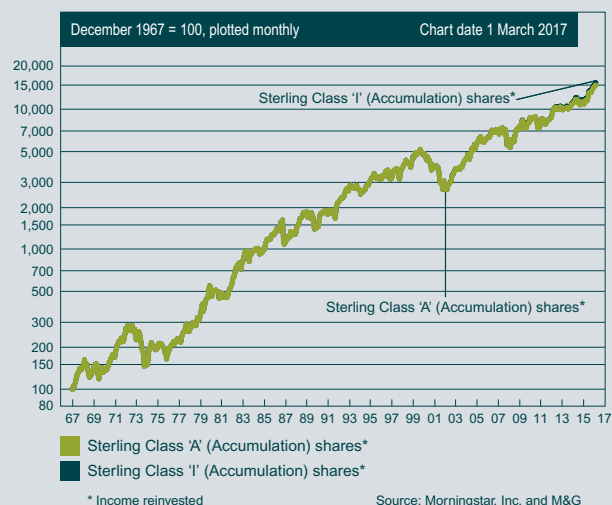
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	28.02.17 \$'000	31.08.16 \$'000	31.08.15 \$'000
Fund net asset value (NAV)	830,480	820,854	990,484

Performance since launch

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



Ten-year performance

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



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

M&G Global Select Fund

Financial highlights

Fund performance

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

Long-term performance by share class

	Six months 01.09.16 % ^[a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+12.2	+12.8	+11.3	+6.5 ^[c]
Class 'B'	+11.9	n/a	n/a	+20.3 ^[d]
Class 'C'	+12.7	+13.9	+12.4	+7.4 ^[c]
Sterling ^[e]				
Class 'A'	+14.1	+14.5	+12.1	+10.7 ^[f]
Class 'I'	+14.6	+15.4	n/a	+15.3 ^[g]
Class 'R'	+14.4	+15.1	n/a	+15.0 ^[g]
Class 'X'	+14.1	+14.5	+12.1	+17.5 ^[h]
US dollar ^[b]				
Class 'A'	+6.0	+3.2	+6.2	+9.1 ^[i]
Class 'C'	+6.5	+4.1	+7.2	+10.2 ^[i]

^[a] Absolute basis.

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

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

^[d] 18 March 2016, the launch date of the share class. Absolute basis.

^[e] Price to price with income reinvested.

^[f] 19 December 1967, the end of the initial offer period of the predecessor unit trust.

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

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

^[i] 19 December 2008, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G Global Select Fund

Financial highlights

Fund performance

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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				
	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.05	0.06	0.03	0.05
Taxes	0.01	0.01	0.01	0.01
Costs before dilution adjustments	0.06	0.07	0.04	0.06
Dilution adjustments ^[c]	(0.01)	(0.02)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.05	0.05	0.03	0.05
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.03	0.03	0.10	0.05

^[a] Average of first three columns.

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

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

Specific share class performance

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

Euro Class 'A' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	2,317.94	2,216.87	1,921.71
Return before operating charges and after direct portfolio transaction costs	289.89	150.00	339.77
Operating charges	(22.67)	(42.97)	(42.10)
Return after operating charges	267.22	107.03	297.67
Distributions	n/a	(5.96)	(2.51)
Closing NAV	2,585.16	2,317.94	2,216.87
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.65	1.55	0.94
Dilution adjustments ^[b]	(0.07)	(0.43)	(0.23)
Total direct portfolio transaction costs	0.58	1.12	0.71
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+11.53	+4.83	+15.49
Historic yield ^[c]	1.86	0.26	0.11
Effect on yield of charges offset against capital	1.90	0.00	0.00
Other information			
Closing NAV (\$'000)	258	311	32
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.00
Number of shares	9,424	12,049	1,273
Highest share price (Euro ¢)	2,602.91	2,411.05	2,504.84
Lowest share price (Euro ¢)	2,210.40	1,922.28	1,794.42

M&G Global Select Fund

Financial highlights

Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	2,332.46	2,225.04	1,926.61
Return before operating charges and after direct portfolio transaction costs	291.78	150.10	340.82
Operating charges	(22.88)	(42.68)	(42.39)
Return after operating charges	268.90	107.42	298.43
Distributions	n/a	(5.93)	(2.52)
Retained distributions	n/a	5.93	2.52
Closing NAV	2,601.36	2,332.46	2,225.04
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.66	1.54	0.90
Dilution adjustments ^[b]	(0.07)	(0.43)	(0.22)
Total direct portfolio transaction costs	0.59	1.11	0.68
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+11.53	+4.83	+15.49
Historic yield	0.23	0.25	0.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	69,919	69,391	107,662
Closing NAV percentage of total fund NAV (%)	8.42	8.45	10.87
Number of shares	2,535,290	2,670,087	4,289,801
Highest share price (Euro ¢)	2,619.22	2,419.91	2,511.38
Lowest share price (Euro ¢)	2,224.25	1,929.35	1,799.10

Euro Class 'B' Accumulation share performance

The share class was launched on 18 March 2016.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	1,068.43	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	133.43	79.72	n/a
Operating charges	(13.20)	(11.29)	n/a
Return after operating charges	120.23	68.43	n/a
Distributions	n/a	(2.39)	n/a
Retained distributions	n/a	2.39	n/a
Closing NAV	1,188.66	1,068.43	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.30	0.33	n/a
Dilution adjustments ^[b]	(0.03)	(0.09)	n/a
Total direct portfolio transaction costs	0.27	0.24	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	n/a
Operating charges	2.42	2.41	n/a
Return after operating charges	+11.25	+6.84	n/a
Historic yield	0.20	0.22	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (\$'000)	52	36	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.00	n/a
Number of shares	4,148	3,000	n/a
Highest share price (Euro ¢)	1,196.92	1,071.41	n/a
Lowest share price (Euro ¢)	1,017.96	977.52	n/a

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	2,556.18	2,444.07	2,116.95
Return before operating charges and after direct portfolio transaction costs	320.76	166.14	374.84
Operating charges	(11.87)	(22.87)	(22.27)
Return after operating charges	308.89	143.27	352.57
Distributions	n/a	(31.16)	(25.45)
Closing NAV	2,865.07	2,556.18	2,444.07
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.72	1.73	1.05
Dilution adjustments ^[b]	(0.08)	(0.48)	(0.26)
Total direct portfolio transaction costs	0.64	1.25	0.79
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+12.08	+5.86	+16.65
Historic yield ^[c]	1.85	1.22	1.04
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	23	30	6
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	745	1,045	245
Highest share price (Euro ¢)	2,884.27	2,664.43	2,776.78
Lowest share price (Euro ¢)	2,441.92	2,128.38	1,979.43

M&G Global Select Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	2,647.46	2,500.39	2,143.76
Return before operating charges and after direct portfolio transaction costs	332.34	170.21	379.23
Operating charges	(12.45)	(23.14)	(22.60)
Return after operating charges	319.89	147.07	356.63
Distributions	n/a	(31.85)	(25.86)
Retained distributions	n/a	31.85	25.86
Closing NAV	2,967.35	2,647.46	2,500.39
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.75	1.74	1.01
Dilution adjustments ^[b]	(0.08)	(0.48)	(0.25)
Total direct portfolio transaction costs	0.67	1.26	0.76
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+12.08	+5.88	+16.64
Historic yield	1.07	1.20	1.04
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	36,151	31,717	28,623
Closing NAV percentage of total fund NAV (%)	4.35	3.86	2.89
Number of shares	1,149,189	1,075,212	1,014,909
Highest share price (Euro ¢)	2,987.24	2,726.38	2,811.33
Lowest share price (Euro ¢)	2,529.14	2,177.87	2,004.46

Sterling Class 'A' Income share performance

The share class was launched on 19 December 1967.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	336.76	278.33	261.38
Return before operating charges and after direct portfolio transaction costs	44.01	65.00	22.39
Operating charges	(2.92)	(4.91)	(4.70)
Return after operating charges	41.09	60.09	17.69
Distributions	n/a	(1.66)	(0.74)
Closing NAV	377.85	336.76	278.33
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.20	0.12
Dilution adjustments ^[b]	(0.01)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.09	0.14	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+12.20	+21.59	+6.77
Historic yield ^[c]	1.71	0.50	0.27
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	462,539	462,473	532,345
Closing NAV percentage of total fund NAV (%)	55.70	56.34	53.75
Number of shares	98,404,276	104,538,931	124,295,740
Highest share price (UK p)	378.25	343.72	309.57
Lowest share price (UK p)	326.49	259.21	244.89

Sterling Class 'A' Accumulation share performance

The share class was launched on 19 December 1967.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	654.86	538.55	504.41
Return before operating charges and after direct portfolio transaction costs	85.56	125.80	43.19
Operating charges	(5.68)	(9.49)	(9.05)
Return after operating charges	79.88	116.31	34.14
Distributions	n/a	(3.20)	(1.36)
Retained distributions	n/a	3.20	1.36
Closing NAV	734.74	654.86	538.55
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.39	0.22
Dilution adjustments ^[b]	(0.02)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.17	0.28	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+12.20	+21.60	+6.77
Historic yield	0.43	0.49	0.25
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	132,379	132,082	227,053
Closing NAV percentage of total fund NAV (%)	15.94	16.09	22.92
Number of shares	14,483,260	15,353,780	27,398,188
Highest share price (UK p)	735.52	665.09	597.42
Lowest share price (UK p)	634.88	501.57	472.61

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,608.70	1,329.29	1,248.55
Return before operating charges and after direct portfolio transaction costs	210.65	312.00	107.00
Operating charges	(7.68)	(12.98)	(12.43)
Return after operating charges	202.97	299.02	94.57
Distributions	n/a	(19.61)	(13.83)
Closing NAV	1,811.67	1,608.70	1,329.29
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.46	0.98	0.56
Dilution adjustments ^[b]	(0.05)	(0.27)	(0.14)
Total direct portfolio transaction costs	0.41	0.71	0.42
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+12.62	+22.49	+7.57
Historic yield ^[c]	1.77	1.23	1.04
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	24,398	23,534	15,100
Closing NAV percentage of total fund NAV (%)	2.94	2.87	1.52
Number of shares	1,082,569	1,113,639	738,241
Highest share price (UK p)	1,813.60	1,653.19	1,485.66
Lowest share price (UK p)	1,560.00	1,242.00	1,170.87

M&G Global Select Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,693.41	1,382.15	1,284.81
Return before operating charges and after direct portfolio transaction costs	221.73	324.74	110.13
Operating charges	(8.08)	(13.48)	(12.79)
Return after operating charges	213.65	311.26	97.34
Distributions	n/a	(20.40)	(14.26)
Retained distributions	n/a	20.40	14.26
Closing NAV	1,907.06	1,693.41	1,382.15
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.49	1.01	0.57
Dilution adjustments ^[b]	(0.05)	(0.28)	(0.14)
Total direct portfolio transaction costs	0.44	0.73	0.43
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	0.91	0.92	0.91
Return after operating charges	+12.62	+22.52	+7.58
Historic yield	1.06	1.21	1.03
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	83,077	79,279	53,096
Closing NAV percentage of total fund NAV (%)	10.00	9.66	5.36
Number of shares	3,501,874	3,563,837	2,496,472
Highest share price (UK p)	1,909.08	1,719.29	1,528.83
Lowest share price (UK p)	1,642.16	1,291.65	1,204.97

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	160.86	132.93	124.85
Return before operating charges and after direct portfolio transaction costs	21.06	31.15	10.70
Operating charges	(0.98)	(1.65)	(1.58)
Return after operating charges	20.08	29.50	9.12
Distributions	n/a	(1.57)	(1.04)
Closing NAV	180.94	160.86	132.93
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.10	0.06
Dilution adjustments ^[b]	(0.01)	(0.03)	(0.01)
Total direct portfolio transaction costs	0.04	0.07	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.17	1.17	1.16
Return after operating charges	+12.48	+22.19	+7.30
Historic yield ^[c]	1.75	0.98	0.78
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (\$'000)	405	342	300
Closing NAV percentage of total fund NAV (%)	0.05	0.04	0.03
Number of shares	179,747	161,836	146,870
Highest share price (UK p)	181.13	164.94	148.34
Lowest share price (UK p)	155.99	124.07	117.05

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	167.59	137.13	127.83
Return before operating charges and after direct portfolio transaction costs	21.93	32.16	10.91
Operating charges	(1.02)	(1.70)	(1.61)
Return after operating charges	20.91	30.46	9.30
Distributions	n/a	(1.62)	(1.05)
Retained distributions	n/a	1.62	1.05
Closing NAV	188.50	167.59	137.13
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.10	0.06
Dilution adjustments ^[b]	(0.01)	(0.03)	(0.01)
Total direct portfolio transaction costs	0.04	0.07	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.16	1.17	1.16
Return after operating charges	+12.48	+22.21	+7.28
Historic yield	0.85	0.97	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	308	289	365
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.04
Number of shares	131,175	131,175	172,592
Highest share price (UK p)	188.71	170.17	151.83
Lowest share price (UK p)	162.51	128.01	119.84

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	336.74	278.31	261.34
Return before operating charges and after direct portfolio transaction costs	44.00	65.00	22.40
Operating charges	(2.92)	(4.91)	(4.70)
Return after operating charges	41.08	60.09	17.70
Distributions	n/a	(1.66)	(0.73)
Closing NAV	377.82	336.74	278.31
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.20	0.12
Dilution adjustments ^[b]	(0.01)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.09	0.14	0.09
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+12.20	+21.59	+6.77
Historic yield ^[c]	1.71	0.50	0.26
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	11,352	11,681	13,029
Closing NAV percentage of total fund NAV (%)	1.37	1.42	1.32
Number of shares	2,415,192	2,640,665	3,042,241
Highest share price (UK p)	378.22	343.69	309.53
Lowest share price (UK p)	326.47	259.19	244.86

M&G Global Select Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	649.36	534.02	500.18
Return before operating charges and after direct portfolio transaction costs	84.84	124.75	42.79
Operating charges	(5.63)	(9.41)	(8.95)
Return after operating charges	79.21	115.34	33.84
Distributions	n/a	(3.18)	(1.18)
Retained distributions	n/a	3.18	1.18
Closing NAV	728.57	649.36	534.02
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.39	0.22
Dilution adjustments ^[b]	(0.02)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.17	0.28	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.66	1.67	1.66
Return after operating charges	+12.20	+21.60	+6.77
Historic yield	0.43	0.49	0.22
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	7,343	7,240	10,013
Closing NAV percentage of total fund NAV (%)	0.88	0.88	1.01
Number of shares	810,224	848,727	1,218,384
Highest share price (UK p)	729.34	659.50	592.40
Lowest share price (UK p)	629.55	497.35	468.64

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,919.15	1,858.21	1,888.08
Return before operating charges and after direct portfolio transaction costs	135.68	101.02	14.32
Operating charges	(18.27)	(35.19)	(37.27)
Return after operating charges	117.41	65.83	(22.95)
Distributions	n/a	(4.89)	(6.92)
Closing NAV	2,036.56	1,919.15	1,858.21
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.53	1.27	0.80
Dilution adjustments ^[b]	(0.06)	(0.35)	(0.19)
Total direct portfolio transaction costs	0.47	0.92	0.61
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+6.12	+3.54	-1.22
Historic yield ^[c]	1.96	0.25	0.37
Effect on yield of charges offset against capital	1.90	0.00	0.00
Other information			
Closing NAV (\$'000)	338	318	308
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.03
Number of shares	16,595	16,595	16,595
Highest share price (US ¢)	2,038.73	1,944.85	2,017.28
Lowest share price (US ¢)	1,823.71	1,619.58	1,703.81

US dollar Class 'A' Accumulation share performance

The share class was launched on 19 December 2008.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,935.59	1,869.25	1,892.54
Return before operating charges and after direct portfolio transaction costs	136.78	101.73	13.31
Operating charges	(18.37)	(35.39)	(36.60)
Return after operating charges	118.41	66.34	(23.29)
Distributions	n/a	(4.89)	(6.94)
Retained distributions	n/a	4.89	6.94
Closing NAV	2,054.00	1,935.59	1,869.25
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.53	1.27	0.78
Dilution adjustments ^[b]	(0.06)	(0.35)	(0.19)
Total direct portfolio transaction costs	0.47	0.92	0.59
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	1.91	1.92	1.91
Return after operating charges	+6.12	+3.55	-1.23
Historic yield	0.24	0.25	0.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	1,571	1,713	2,182
Closing NAV percentage of total fund NAV (%)	0.19	0.21	0.22
Number of shares	76,474	88,496	116,750
Highest share price (US ¢)	2,056.19	1,956.52	2,021.73
Lowest share price (US ¢)	1,839.33	1,629.31	1,707.79

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	2,017.65	1,953.07	1,978.04
Return before operating charges and after direct portfolio transaction costs	143.10	106.87	13.51
Operating charges	(8.95)	(17.42)	(17.46)
Return after operating charges	134.15	89.45	(3.95)
Distributions	n/a	(24.87)	(21.02)
Closing NAV	2,151.80	2,017.65	1,953.07
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.51	1.31	0.69
Dilution adjustments ^[b]	(0.06)	(0.36)	(0.17)
Total direct portfolio transaction costs	0.45	0.95	0.52
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	0.89	0.90	0.93
Return after operating charges	+6.65	+4.58	-0.20
Historic yield ^[c]	1.97	1.23	1.08
Effect on yield of charges offset against capital	0.89	0.00	0.00
Other information			
Closing NAV (\$'000)	6	5	5
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	259	259	259
Highest share price (US ¢)	2,154.09	2,064.21	2,132.55
Lowest share price (US ¢)	1,920.72	1,709.73	1,787.32

M&G Global Select Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 19 December 2008.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	2,083.13	1,991.74	2,002.88
Return before operating charges and after direct portfolio transaction costs	147.99	109.55	6.43
Operating charges	(9.54)	(18.16)	(17.57)
Return after operating charges	138.45	91.39	(11.14)
Distributions	n/a	(25.03)	(21.28)
Retained distributions	n/a	25.03	21.28
Closing NAV	2,221.58	2,083.13	1,991.74
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.58	1.36	0.77
Dilution adjustments ^[b]	(0.06)	(0.38)	(0.19)
Total direct portfolio transaction costs	0.52	0.98	0.58
Performance and charges	%	%	%
Direct portfolio transaction costs	0.05	0.05	0.03
Operating charges	0.91	0.92	0.93
Return after operating charges	+6.65	+4.59	-0.56
Historic yield	1.13	1.20	1.03
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	361	413	365
Closing NAV percentage of total fund NAV (%)	0.04	0.06	0.04
Number of shares	16,231	19,806	18,288
Highest share price (US ¢)	2,223.94	2,105.26	2,151.74
Lowest share price (US ¢)	1,983.09	1,743.87	1,809.67

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

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

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

M&G Global Select Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		49,284		(63,647)
Revenue	5,840		7,055	
Expenses	(6,166)		(7,517)	
Net revenue / (expense) before taxation	(326)		(462)	
Taxation	(583)		(906)	
Net revenue / (expense) after taxation		(909)		(1,368)
Total return before equalisation		48,375		(65,015)
Equalisation		(51)		189
Change in net assets attributable to shareholders from investment activities		48,324		(64,826)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		820,854		990,484
Amounts received on issue of shares	10,700		49,848	
Amounts paid on cancellation of shares	(49,430)		(132,830)	
		(38,730)		(82,982)
Dilution adjustments		30		90
Change in net assets attributable to shareholders from investment activities (see above)		48,324		(64,826)
Unclaimed distributions		2		2
Closing net assets attributable to shareholders		830,480		842,768

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	\$'000	\$'000
Assets		
Fixed assets		
Investments	827,669	820,801
Current assets		
Debtors	3,204	4,328
Cash and bank balances	764	504
Total assets	831,637	825,633
Liabilities		
Creditors		
Bank overdrafts	(1)	(186)
Distribution payable	0	(2,634)
Other creditors	(1,156)	(1,959)
Total liabilities	(1,157)	(4,779)
Net assets attributable to shareholders	830,480	820,854

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G Global Select Fund

Financial statements and notes

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M&G Japan Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests in a wide range of securities of Japanese issuers, covering most aspects of the economy. Its sole objective is long term capital growth. Income is not a consideration when investments are selected.

Investment approach

The M&G Japan Fund screens a wide investment universe to form a concentrated portfolio of Japanese companies that are trading on low valuations relative to their history and the market. The fund aims to achieve sound capital growth over the long term.

The fund manager applies disciplined and rigorous fundamental analysis during the selection process to ensure a high level of conviction around the valuation for each of the companies held in the fund. The portfolio maintains diversification by typically holding between 30 and 50 stocks.

The fund holds shares in companies that have attractive valuations relative to the earnings they are likely to generate over the medium to long term. These companies are quite often out of favour with the market for one reason or another. The fund's investment strategy therefore tends to be contrarian in nature.

The fund manager sees investing as a price-sensitive process that takes advantage of the mis-pricing of a company's shares by the market. Whilst recognising that markets are generally efficient, the fund manager believes that market mis-pricings can and often do occur because human characteristics (such as fear and greed) may prevent investors from always assessing investments rationally.

As a result, market prices do not always reflect fundamental values since they may over-shoot and under-shoot. For example, shares in companies become mis-priced when investors are willing to pay a high price for the 'comfort' of strong near-term earnings momentum and to be associated with success, whilst they will sell 'unfashionable' securities regardless of inherent attractiveness, such as healthy balance sheets and the likely level of longer term earnings.

Such behavioural biases are evident in Japan's equity markets today and can be systemically exploited. The fund manager aims to take advantage of these biases by adopting a disciplined, long-term investment approach.

Risk profile

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

The fund's focus is on companies that are deemed to be undervalued, and these stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller companies, which can be more unpredictable and difficult to buy and sell. Diversification across industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Japan Fund's total return (the combination of income and growth of capital) was positive across all its share classes.^[a] The fund's returns were ahead of the comparative index, the MSCI Japan Index. Over the six months, returns from the index were 13.5%, 11.5% and 5.1% in sterling, euros and US dollars respectively.

Over five years and since launch, the fund has achieved its objective of long-term capital growth.^[a]

Investment performance

During the six months under review, the fund generated strong returns and outperformed a rising Japanese stockmarket. Japanese shares were buoyed by a combination of positive factors, namely: supportive monetary policy from the Bank of Japan (the central bank is holding down long-term interest rates, which should encourage borrowing); better-than-expected economic growth in the world's second-largest economy, China; and in the US, the election of Donald Trump as president, which raised expectations that more business-friendly policies and less regulation would be introduced, which should boost the economy.

We take a 'behavioural' approach to asset management, which means exploiting price fluctuations caused by other investors' tendency to let emotions drive their investment decisions. We call these occasions, where we believe prices are moving for non-fundamental reasons, 'episodes'.

We use a disciplined and repeatable framework, which aims to exploit these 'episodes'. By conducting in-depth analysis, we aim to find companies that are trading at a price which is below that justified by its earnings prospects over the medium to long term.

We then construct a portfolio usually consisting of 30 to 50 companies of our best ideas that is reasonably diversified and covers most sectors of the economy. When holdings have performed well, or if we see evidence that fundamentals have changed, capital is then recycled into new opportunities, or holdings that have lagged the broader market.

M&G Japan Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Over the review period, fund performance was supported by stock selection in a number of sectors, including financials. While some investors feel the low interest rate environment will prove particularly difficult for the profitability of Japanese financial institutions, we believe the negative sentiment has been overdone. In particular, other investors' views that interest rates will remain negative for a prolonged period are too pessimistic, in our opinion. Furthermore, the financial stocks we hold in the portfolio are businesses where management are taking action to improve profitability.

One such example is Nomura Holdings, which was one of the fund's top contributors during the review period. We believe the company's focus on reducing fixed costs and improving capital discipline, through share buybacks, should continue to be positive in the medium term. Shares in the brokerage company rose after it reported better-than-expected earnings, thanks to greater cost discipline and a surge in trading in its overseas fixed income and Japanese equities divisions.

A position in insurer T&D Holdings aided performance as well. In our opinion, T&D is well capitalised and generating excess returns over its cost of capital, even in the low interest rate environment. The insurer is able to achieve this because of its focus on niche products and, in our view, the company is attractively valued.

Within our bank holdings, Mitsubishi UFJ Financial was the standout performer. The bank is less reliant on net interest income than some of its competitors, as a high proportion of its revenues are fee-based. Furthermore, it has a large US dollar loan book, which is priced off US interest rates (which are rising) and so is more profitable than yen-denominated loans.

We took advantage of the strength in financials over the six months to reduce some holdings and recycle the capital into other areas of the market.

Industrial stocks also featured prominently amongst the fund's contributors. Sumitomo Heavy Industries reported better-than-expected first-half results, despite a loss at its construction machinery division. Losses there were offset by sales growth and cost-cutting in Sumitomo's other heavy machinery segments.

Meanwhile, Asahi Glass raised guidance for full-year operating profits and announced plans for a substantial share buyback; its shares rallied on the news. There are signs of improved profitability in the core float glass business and the company is also benefiting from stabilising liquid crystal display (LCD) glass substrate prices and strong volume growth, as the unit size of LCD glass is increasing.

Elsewhere, Mitsui O.S.K. Lines enjoyed a strong run following the announcement of corporate activity. In October 2016, a merger was announced between the container arms of Mitsui O.S.K. Lines, Nippon Yusen KK, and Kawasaki Kisen Kaisha; the news was well received by investors.

Finally, in the technology sector, shares in Rohm responded favourably to the news that it had made progress reducing its cost base. In our view, Rohm's valuation is improving, helped by an expected enhancement in margins, achieved through the gradual application of its intellectual property in power management integrated circuits.

On the other hand, the principal detractor during the review period was industrial stock Toshiba. Shares in the company fell sharply on concerns over the size of a writedown at its US nuclear construction

unit. We have since closed the position as we could not get comfortable with the level of earnings the company will be able to sustain going forward, given its high level of gearing and because it is having to dispose of some of its core assets.

Other holdings that cost some performance included NEC and Ricoh. Shares in NEC tumbled after the maker of communications equipment lowered its profit outlook for the year ending March 2017. Revenues are expected to disappoint on the back of delays on a number of contracts. However, in our opinion, a change in business mix at the company should bring about an improvement in earnings in time.

Ricoh is a company that manufactures a range of office automation equipment, electronic devices and photographic instruments. Investors have been disappointed with the lack of progress management has made in cutting the company's cost base. However, we believe there is a real opportunity for this to be addressed going forward, which should result in a substantial improvement in earnings.

Investment activities

Investment activity during the review period focused on the recycling of cash out of businesses we believed had become overvalued and topping up holdings which we think were undervalued. In particular, we took advantage of the strength in financials to reduce some holdings. We also reduced the number of holdings in the portfolio in order to concentrate on our highest-conviction ideas.

Positions that were closed included technology company Advantest, which has performed very well for the fund, and telecommunication business Nippon Telegraph and Telephone. Denki Kogyo, a company that manufactures and installs telecommunication antennae for mobile communication facilities, and Orix, a financial services company, also left the portfolio. In addition, we exited the holding in Xebio, a retailer specialising in sports equipment and clothing, as it is facing increased competition from other sports retailers, particularly ones with a strong internet offering.

At the same time, we initiated a position in Seiko, a manufacturer of watches and electronic devices. The company faces a number of headwinds, including reduced demand for watches following the clampdown on corruption in China, elevated inventory levels, high gold prices and a stronger yen. Seiko also needs to adapt to the threat from smart watches. We accept the short-term outlook for Seiko is uncertain and recognise that margins are under pressure. However, in our view, investors are misinterpreting Seiko's challenges and therefore, we believe the shares are undervalued.

Outlook

We believe the valuation of Japanese shares is compelling. In our opinion, the changes happening in Japan today are structural and can lead to sustained improvement in corporate earnings. Changes to the stewardship and governance codes covering investors have resulted in their increased engagement with companies. In turn, companies have become more focused on shareholder value, and have also significantly improved both their cost structures and profitability.

This is good news for the economy, as profitable companies have the resources to invest, and the changing corporate culture will ultimately benefit shareholders. Furthermore, nominal wages finally appear to be growing again and the unemployment rate has fallen to levels not seen in 20 years. Both these changes should help invigorate the Japanese economy.

M&G Japan Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

However, these changes have not been reflected in market valuations. The experience of the global financial crisis still lingers in many investors' minds and their beliefs remain anchored in the past. Consequently, some investors are not willing to buy equities at these levels, which is creating significant investment opportunities.

In our view, these positive changes in corporate behaviour and the environment in which companies operate should be supportive of sustainable long-term returns. By our assessment, it is now a stockpickers market, well-suited to an active management approach.

Johan Du Preez Fund manager

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

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

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

Investments

Portfolio statement

as at Holding	28.02.17 ¥'000	28.02.17 %	31.08.16 %
Equities	57,530,087	96.75	99.59
Chemicals	3,361,664	5.65	5.16
278,200 DIC	1,140,620	1.92	
1,158,000 JSR	2,221,044	3.73	
Forestry & paper	814,092	1.37	1.36
1,516,000 Oji Paper	814,092	1.37	
Industrial metals & mining	1,816,223	3.05	2.53
855,700 JFE Holdings	1,816,223	3.05	
Construction & materials	4,131,201	6.95	6.87
2,727,000 Asahi Glass	2,497,932	4.20	
593,700 Lixil Group	1,633,269	2.75	
General industrials	0	0.00	4.06
Electronic & electrical equipment	4,382,219	7.37	6.55
3,927,000 Hitachi	2,429,242	4.09	
4,638,900 Wacom	1,952,977	3.28	
Industrial engineering	2,474,787	4.16	5.43
377,400 Ebara	1,247,307	2.10	
1,544,000 Sumitomo Heavy Industries	1,227,480	2.06	
Industrial transportation	2,382,267	4.00	4.30
979,000 KYB	590,337	0.99	
4,830,000 Mitsui O.S.K. Lines	1,791,930	3.01	
Support services	2,423,909	4.08	3.74
1,607,900 Sumitomo	2,423,909	4.08	
Automobiles & parts	5,472,100	9.20	9.55
985,500 Honda Motor	3,436,439	5.78	
1,113,600 Sumitomo Electric Industries	2,035,661	3.42	
Leisure goods	3,578,304	6.02	3.71
1,289,700 Nikon	2,213,125	3.72	
1,109,000 Panasonic	1,365,179	2.30	
Personal goods	877,536	1.48	1.70
1,056,000 Onward Holdings	877,536	1.48	

Portfolio statement (continued)

as at Holding	28.02.17 ¥'000	28.02.17 %	31.08.16 %
Pharmaceuticals & biotechnology	2,422,544	4.07	3.59
464,000 Takeda Pharmaceutical	2,422,544	4.07	
General retailers	3,372,713	5.67	3.94
270,300 Dena	682,778	1.15	
207,400 Komeri	575,120	0.97	
33,600 Shimamura	488,544	0.82	
460,700 United Arrows	1,626,271	2.73	
Media	1,210,518	2.04	1.72
783,000 Fuji Media Holdings	1,210,518	2.04	
Fixed line telecommunications	0	0.00	0.19
Banks	7,302,372	12.28	14.20
4,483,600 Mitsubishi UFJ Financial	3,310,242	5.57	
567,900 Sumitomo Mitsui Financial	2,484,562	4.18	
374,458 Sumitomo Mitsui Trust Holdings	1,507,568	2.53	
Life insurance	1,734,964	2.92	3.11
1,008,700 T&D Holdings	1,734,964	2.92	
Financial services	2,533,751	4.26	4.90
3,474,700 Nomura Holdings	2,533,751	4.26	
Technology hardware & equipment	7,238,923	12.18	12.98
7,361,000 NEC	2,053,719	3.45	
1,891,600 Ricoh	1,849,985	3.11	
169,500 Rohm	1,228,875	2.07	
1,618,000 Sanken Electric	800,910	1.35	
2,714,000 Seiko	1,305,434	2.20	
Futures contracts	22,049	0.04	0.00
96 TOPIX Index Mar 2017	22,049	0.04	
Portfolio of investments	57,552,136	96.79	99.59
Net other assets / (liabilities)	1,906,944	3.21	0.41
Net assets attributable to shareholders	59,459,080	100.00	100.00

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

Top ten portfolio transactions

for the six months to 28 February 2017

	¥'000
Largest purchases	
United Arrows	1,351,699
Panasonic	1,325,172
Honda Motor	1,284,759
Seiko	1,190,447
Mitsubishi UFJ Financial	973,762
Takeda Pharmaceutical	959,360
Hitachi	826,654
Wacom	816,851
Nikon	816,817
JSR	781,161
Other purchases	11,706,430
Total purchases	22,033,112
Largest sales	
Toshiba	1,653,646
Sumitomo Heavy Industries	895,192
Rohm	876,424
Orix	726,545
Advantest	543,681
Xebio	468,485
KYB	463,407
Sumitomo Mitsui Trust Holdings	453,727
Sumitomo Mitsui Financial	352,752
Shimamura	323,886
Other sales	3,918,389
Total sales	10,676,134

M&G Japan Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

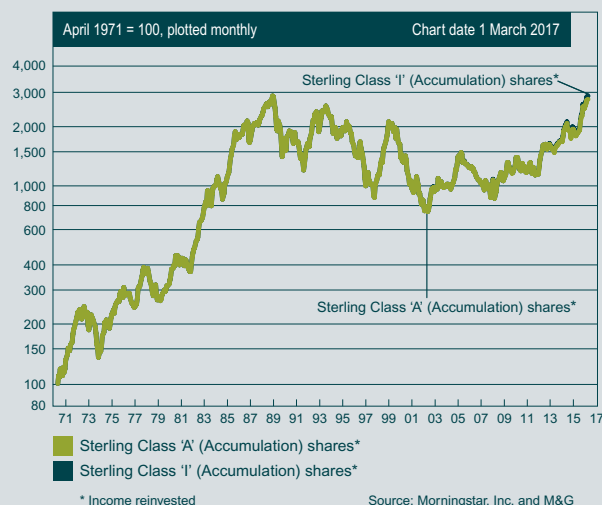
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	28.02.17 ¥'000	31.08.16 ¥'000	31.08.15 ¥'000
Fund net asset value (NAV)	59,459,080	37,289,675	40,187,792

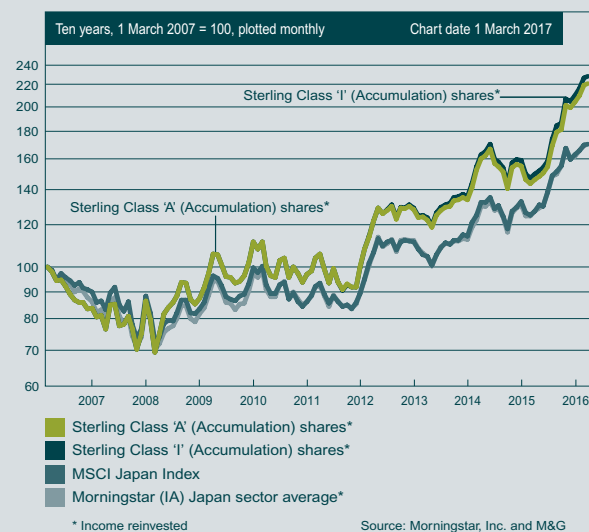
Performance since launch

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



Ten-year performance

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



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

M&G Japan Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	Six months 01.09.16 % ^[a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+22.2	+20.1	+16.0	+4.1 ^[c]
Class 'C'	+22.7	+21.0	+16.9	+4.8 ^[c]
Sterling ^[d]				
Class 'A'	+24.2	+21.6	+16.5	+7.5 ^[e]
Class 'I'	+24.7	+22.5	n/a	+21.7 ^[f]
Class 'R'	+24.5	+22.2	n/a	+21.4 ^[f]
Class 'X'	+24.2	+21.6	+16.5	+9.1 ^[g]
US dollar ^[b]				
Class 'A'	+15.5	n/a	n/a	+11.2 ^[h]
Class 'C'	+15.9	n/a	n/a	+12.0 ^[h]

^[a] Absolute basis.

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

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

^[d] Price to price with income reinvested.

^[e] 6 April 1971, the end of the initial offer period of the predecessor unit trust.

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

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

^[h] 9 October 2015, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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.

M&G Japan Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs (continued)

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. 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				
	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.05	0.18	0.12	0.12
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.05	0.18	0.12	0.12
Dilution adjustments ^[c]	(0.05)	(0.07)	(0.12)	(0.08)
Total direct portfolio transaction costs	0.00	0.11	0.00	0.04
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.19	0.17	0.17	0.18

^[a] Average of first three columns.

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

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

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,501.74	1,468.57	1,167.60
Return before operating charges and after direct portfolio transaction costs	344.33	57.05	325.80
Operating charges	(14.05)	(23.88)	(24.83)
Return after operating charges	330.28	33.17	300.97
Distributions	n/a	(7.36)	(0.93)
Retained distributions	n/a	7.36	0.93
Closing NAV	1,832.02	1,501.74	1,468.57
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.46	2.57	1.79
Dilution adjustments ^[b]	(0.46)	(0.95)	(1.79)
Total direct portfolio transaction costs	0.00	1.62	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	1.68	1.68	1.69
Return after operating charges	+21.99	+2.26	+25.78
Historic yield	0.39	0.49	0.07
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	6,828,786	4,540,556	5,616,811
Closing NAV percentage of total fund NAV (%)	11.48	12.18	13.98
Number of shares	3,132,690	2,628,474	2,806,163
Highest share price (Euro ¢)	1,886.66	1,602.40	1,675.91
Lowest share price (Euro ¢)	1,441.19	1,187.92	1,094.13

M&G Japan Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro €	Year to 31.08.16 Euro €	Year to 31.08.15 Euro €
Change in NAV per share			
Opening NAV	1,666.54	1,617.51	1,276.46
Return before operating charges and after direct portfolio transaction costs	382.60	63.58	356.16
Operating charges	(8.50)	(14.55)	(15.11)
Return after operating charges	374.10	49.03	341.05
Distributions	n/a	(21.90)	(12.10)
Retained distributions	n/a	21.90	12.10
Closing NAV	2,040.64	1,666.54	1,617.51
Direct portfolio transaction costs ^[a]	Euro €	Euro €	Euro €
Costs before dilution adjustments	0.50	2.84	1.96
Dilution adjustments ^[b]	(0.50)	(1.04)	(1.96)
Total direct portfolio transaction costs	0.00	1.80	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	0.92	0.92	0.94
Return after operating charges	+22.45	+3.03	+26.72
Historic yield	1.05	1.31	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	12,898,430	9,839,641	14,225,489
Closing NAV percentage of total fund NAV (%)	21.69	26.38	35.40
Number of shares	5,312,218	5,132,789	6,452,642
Highest share price (Euro €)	2,101.22	1,768.00	1,840.93
Lowest share price (Euro €)	1,599.84	1,312.84	1,197.25

Sterling Class 'A' Income share performance

The share class was launched on 9 May 1977.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	48.37	41.08	35.42
Return before operating charges and after direct portfolio transaction costs	11.38	8.23	6.37
Operating charges	(0.46)	(0.70)	(0.70)
Return after operating charges	10.92	7.53	5.67
Distributions	n/a	(0.24)	(0.01)
Closing NAV	59.29	48.37	41.08
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.08	0.05
Dilution adjustments ^[b]	(0.01)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.05	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	1.68	1.67	1.70
Return after operating charges	+22.58	+18.33	+16.01
Historic yield ^[c]	1.51	0.49	0.04
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (¥000)	27,483,047	13,170,313	8,679,350
Closing NAV percentage of total fund NAV (%)	46.22	35.31	21.60
Number of shares	331,999,287	200,774,272	113,633,391
Highest share price (UK p)	60.49	48.72	45.83
Lowest share price (UK p)	46.49	35.30	33.29

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 April 1971.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	53.05	44.84	38.66
Return before operating charges and after direct portfolio transaction costs	12.48	8.97	6.92
Operating charges	(0.50)	(0.76)	(0.74)
Return after operating charges	11.98	8.21	6.18
Distributions	n/a	(0.26)	(0.01)
Retained distributions	n/a	0.26	0.01
Closing NAV	65.03	53.05	44.84
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.05
Dilution adjustments ^[b]	(0.02)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.05	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	1.67	1.68	1.70
Return after operating charges	+22.58	+18.31	+15.99
Historic yield	0.38	0.49	0.02
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	8,684,234	7,729,013	9,070,950
Closing NAV percentage of total fund NAV (%)	14.61	20.72	22.57
Number of shares	95,648,603	107,420,684	108,807,688
Highest share price (UK p)	66.35	53.10	50.01
Lowest share price (UK p)	50.99	38.45	36.33

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,905.66	1,618.13	1,395.08
Return before operating charges and after direct portfolio transaction costs	449.00	325.69	250.32
Operating charges	(9.92)	(15.28)	(15.00)
Return after operating charges	439.08	310.41	235.32
Distributions	n/a	(22.88)	(12.27)
Closing NAV	2,344.74	1,905.66	1,618.13
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.58	2.99	1.93
Dilution adjustments ^[b]	(0.58)	(1.10)	(1.93)
Total direct portfolio transaction costs	0.00	1.89	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	0.93	0.92	0.94
Return after operating charges	+23.04	+19.18	+16.87
Historic yield ^[c]	1.56	1.21	0.77
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (¥000)	343,876	229,451	269,788
Closing NAV percentage of total fund NAV (%)	0.58	0.62	0.67
Number of shares	105,041	88,780	89,667
Highest share price (UK p)	2,392.06	1,932.96	1,813.84
Lowest share price (UK p)	1,832.21	1,394.83	1,312.17

M&G Japan Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,976.12	1,657.52	1,418.46
Return before operating charges and after direct portfolio transaction costs	465.51	334.32	254.96
Operating charges	(10.36)	(15.72)	(15.90)
Return after operating charges	455.15	318.60	239.06
Distributions	n/a	(23.33)	(12.66)
Retained distributions	n/a	23.33	12.66
Closing NAV	2,431.27	1,976.12	1,657.52
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.61	3.07	2.06
Dilution adjustments ^[b]	(0.61)	(1.13)	(2.06)
Total direct portfolio transaction costs	0.00	1.94	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	0.93	0.92	0.94
Return after operating charges	+23.03	+19.22	+16.85
Historic yield	0.93	1.19	0.78
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	2,735,407	1,373,803	1,752,523
Closing NAV percentage of total fund NAV (%)	4.60	3.68	4.36
Number of shares	805,823	512,607	568,631
Highest share price (UK p)	2,480.29	1,980.65	1,844.00
Lowest share price (UK p)	1,899.79	1,429.25	1,334.44

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	190.25	161.62	139.37
Return before operating charges and after direct portfolio transaction costs	44.79	32.47	24.95
Operating charges	(1.24)	(1.92)	(1.88)
Return after operating charges	43.55	30.55	23.07
Distributions	n/a	(1.92)	(0.82)
Closing NAV	233.80	190.25	161.62
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.06	0.30	0.19
Dilution adjustments ^[b]	(0.06)	(0.11)	(0.19)
Total direct portfolio transaction costs	0.00	0.19	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	1.17	1.17	1.19
Return after operating charges	+22.89	+18.90	+16.55
Historic yield ^[c]	1.57	1.01	0.52
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (¥'000)	6,899	5,659	4,818
Closing NAV percentage of total fund NAV (%)	0.01	0.02	0.01
Number of shares	21,135	21,931	16,032
Highest share price (UK p)	238.52	192.61	180.89
Lowest share price (UK p)	182.90	139.18	131.06

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	195.72	164.53	141.15
Return before operating charges and after direct portfolio transaction costs	45.93	32.95	25.29
Operating charges	(1.17)	(1.76)	(1.91)
Return after operating charges	44.76	31.19	23.38
Distributions	n/a	(1.95)	(0.83)
Retained distributions	n/a	1.95	0.83
Closing NAV	240.48	195.72	164.53
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.27	0.20
Dilution adjustments ^[b]	(0.05)	(0.10)	(0.20)
Total direct portfolio transaction costs	0.00	0.17	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	1.17	1.15	1.19
Return after operating charges	+22.87	+18.96	+16.56
Historic yield	0.79	1.00	0.48
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	11,571	32,285	16,229
Closing NAV percentage of total fund NAV (%)	0.02	0.09	0.04
Number of shares	34,463	121,631	53,046
Highest share price (UK p)	245.34	196.16	183.20
Lowest share price (UK p)	188.14	141.71	132.74

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	47.68	40.49	34.92
Return before operating charges and after direct portfolio transaction costs	11.22	8.11	6.25
Operating charges	(0.45)	(0.69)	(0.67)
Return after operating charges	10.77	7.42	5.58
Distributions	n/a	(0.23)	(0.01)
Closing NAV	58.45	47.68	40.49
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.07	0.05
Dilution adjustments ^[b]	(0.01)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.04	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	1.67	1.68	1.70
Return after operating charges	+22.59	+18.33	+15.98
Historic yield ^[c]	1.50	0.49	0.02
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (¥'000)	205,378	174,085	220,597
Closing NAV percentage of total fund NAV (%)	0.35	0.47	0.55
Number of shares	2,516,678	2,691,978	2,929,791
Highest share price (UK p)	59.63	48.03	45.18
Lowest share price (UK p)	45.83	34.80	32.82

M&G Japan Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	52.33	44.23	38.13
Return before operating charges and after direct portfolio transaction costs	12.31	8.87	6.83
Operating charges	(0.49)	(0.77)	(0.73)
Return after operating charges	11.82	8.10	6.10
Distributions	n/a	(0.25)	(0.01)
Retained distributions	n/a	0.25	0.01
Closing NAV	64.15	52.33	44.23
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.05
Dilution adjustments ^[b]	(0.02)	(0.03)	(0.05)
Total direct portfolio transaction costs	0.00	0.05	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.00
Operating charges	1.68	1.68	1.70
Return after operating charges	+22.59	+18.31	+16.00
Historic yield	0.38	0.49	0.02
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	229,783	188,656	331,237
Closing NAV percentage of total fund NAV (%)	0.39	0.51	0.82
Number of shares	2,565,526	2,657,982	4,027,632
Highest share price (UK p)	65.45	52.46	49.34
Lowest share price (UK p)	50.30	38.01	35.84

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 October 2015.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	999.74	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	170.25	13.58	n/a
Operating charges	(9.54)	(13.84)	n/a
Return after operating charges	160.71	(0.26)	n/a
Distributions	n/a	(4.99)	n/a
Retained distributions	n/a	4.99	n/a
Closing NAV	1,160.45	999.74	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.31	1.51	n/a
Dilution adjustments ^[b]	(0.31)	(0.55)	n/a
Total direct portfolio transaction costs	0.00	0.96	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	n/a
Operating charges	1.70	1.67	n/a
Return after operating charges	+16.08	-0.03	n/a
Historic yield	0.42	0.50	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥000)	23,327	3,096	n/a
Closing NAV percentage of total fund NAV (%)	0.04	0.01	n/a
Number of shares	17,911	3,000	n/a
Highest share price (US ¢)	1,183.45	1,024.92	n/a
Lowest share price (US ¢)	968.00	803.51	n/a

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 October 2015.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,006.41	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	171.32	14.08	n/a
Operating charges	(5.19)	(7.67)	n/a
Return after operating charges	166.13	6.41	n/a
Distributions	n/a	(12.61)	n/a
Retained distributions	n/a	12.61	n/a
Closing NAV	1,172.54	1,006.41	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.31	1.51	n/a
Dilution adjustments ^[b]	(0.31)	(0.56)	n/a
Total direct portfolio transaction costs	0.00	0.95	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	n/a
Operating charges	0.93	0.92	n/a
Return after operating charges	+16.51	+0.64	n/a
Historic yield	1.06	1.25	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥000)	8,342	3,117	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.01	n/a
Number of shares	6,339	3,000	n/a
Highest share price (US ¢)	1,195.63	1,025.16	n/a
Lowest share price (US ¢)	974.75	805.55	n/a

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

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

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

M&G Japan Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	¥'000	¥'000	¥'000	¥'000
Income				
Net capital gains / (losses)		9,149,615		(9,616,372)
Revenue	458,485		422,288	
Expenses	(308,530)		(306,214)	
Net revenue / (expense) before taxation	149,955		116,074	
Taxation	(48,803)		(42,337)	
Net revenue / (expense) after taxation		101,152		73,737
Total return before equalisation		9,250,767		(9,542,635)
Equalisation		97,378		39,278
Change in net assets attributable to shareholders from investment activities		9,348,145		(9,503,357)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	¥'000	¥'000	¥'000	¥'000
Opening net assets attributable to shareholders		37,289,675		40,187,792
Amounts received on issue of shares	23,330,594		20,194,767	
Amounts paid on cancellation of shares	(10,547,306)		(9,080,106)	
Value of in-specie transfers paid	0		(2,651,265)	
		12,783,288		8,463,396
Dilution adjustments		37,935		41,415
Change in net assets attributable to shareholders from investment activities (see above)		9,348,145		(9,503,357)
Unclaimed distributions		37		81
Closing net assets attributable to shareholders		59,459,080		39,189,327

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	¥'000	¥'000
Assets		
Fixed assets		
Investments	57,552,136	37,138,471
Current assets		
Debtors	584,615	1,086,711
Cash and bank balances	1,659,615	153,629
Total assets	59,796,366	38,378,811
Liabilities		
Creditors		
Distribution payable	0	(68,085)
Other creditors	(337,286)	(1,021,051)
Total liabilities	(337,286)	(1,089,136)
Net assets attributable to shareholders	59,459,080	37,289,675

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G Japan Smaller Companies Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests wholly or predominantly in securities of smaller Japanese companies, the universe for which is the bottom third in terms of total market capitalisation of all publicly listed equity in Japan. When not wholly invested as above, the Fund may also invest in medium sized and larger companies in order to enhance its liquidity. Its sole objective is long term capital growth.

Investment approach

The M&G Japan Smaller Companies Fund invests in listed smaller Japanese companies to achieve sound capital growth over the long term.

The fund manager applies disciplined and rigorous fundamental analysis during the selection process to ensure a high level of conviction around the valuation for each of the companies held in the fund.

The fund holds shares in companies that have attractive valuations relative to the earnings they are likely to generate over the medium to long term. These companies are quite often out of favour with the market for one reason or another. The fund's investment approach therefore tends to be contrarian in nature.

The fund manager sees investing as a price-sensitive process that takes advantage of the mis-pricing of a company's shares by the market. Whilst recognising that markets are generally efficient, the fund manager believes that market mis-pricings can and often do occur because human characteristics (such as fear and greed) may prevent investors from always assessing investments rationally.

As a result, market prices do not always reflect fundamental values since they may over-shoot and under-shoot. For example, shares in companies become mis-priced when investors are willing to pay a high price for the 'comfort' of strong near-term earnings momentum and to be associated with success, whilst they will sell 'unfashionable' securities regardless of inherent attractiveness, such as healthy balance sheets and the likely level of longer term earnings.

Such behavioural biases are evident in Japan's equity markets today and can be systemically exploited. The fund manager aims to take advantage of these biases by adopting a disciplined, long-term investment approach.

Risk profile

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

The fund's focus is on smaller companies where the share price movement can be more unpredictable and the shares more difficult to buy and sell compared to those of larger companies. Diversification is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Japan Smaller Companies Fund's total return (the combination of income and growth of capital) was positive across all its share classes.^[a] The fund's returns were ahead of the comparative index, the Russell/Nomura Mid-Small Index. Over the six months, returns from the index were 16.9%, 14.8% and 8.3% in sterling, euros and US dollars respectively.

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

Investment performance

During the six months under review, the fund generated strong returns and outperformed a rising Japanese stockmarket. Japanese shares were buoyed by a combination of positive factors, namely supportive monetary policy from the Bank of Japan (the central bank is holding down long-term interest rates, which should encourage borrowing); better-than-expected economic growth in the world's second-largest economy, China; and in the US, the election of Donald Trump as president, which raised expectations that more business-friendly policies and less regulation would be introduced, which should boost the economy.

We take a 'behavioural' approach to asset management, which means exploiting price fluctuations caused by other investors' tendency to let emotions drive their investment decisions. We call these occasions, where we believe prices are moving for non-fundamental reasons, 'episodes'.

We use a disciplined and repeatable framework, which aims to exploit these 'episodes'. By conducting in-depth analysis, we aim to find companies that are trading at a price which is below that justified by its earnings prospects over the medium to long term.

We then construct a portfolio usually consisting of 30 to 50 companies of our best ideas from the bottom third of the market in terms of market capitalisation and that is reasonably diversified. When holdings have performed well, or if we see evidence that fundamentals have changed, capital is then recycled into new opportunities, or holdings that have lagged the broader market.

M&G Japan Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Over the review period, fund performance was supported by stock selection across a wide range of sectors.

The fund's top contributor was industrial company Nittoku, which manufactures winding and taping machines used in the production of coils, transformers and motors. We believe Nittoku has a solid business and the company's shares performed strongly during the period.

Sumitomo Heavy Industries reported better-than-expected first-half results, despite a loss at its construction machinery division. Losses there were offset by sales growth and cost-cutting in Sumitomo's other heavy machinery segments.

Mitsui O.S.K. Lines enjoyed a strong run following the announcement of corporate activity. In October 2016, a merger was announced between the container arms of Mitsui O.S.K. Lines, Nippon Yusen KK, and Kawasaki Kisen Kaisha; the news was well received by investors.

Elsewhere, a holding in semiconductor business Sanken Electric added value as well. Sanken Electric released solid half-year results and raised revenue and profit guidance for the current financial year. The company's new management has done a good job in our view, managing inventory effectively and controlling costs.

Sumitomo Real Estate Sales acts as a broker for condominiums and residential houses. The company's share price was struggling earlier in 2016 as investors worried that condominium demand in Japan had peaked. More recently, though, sentiment has improved and its share price has begun to recover.

Wacom, a manufacturer of digital input devices such as graphic tablets, which are used in creative and design industries, also added value. The company has strong intellectual property and is the dominant player in the industrial sector, which is the main driver of profits. The company is investing heavily to refresh its product line-up, which we believe will bear fruit in time and, at the current share price, Wacom's valuation is undemanding.

On the other hand, the fund's principal detractors were Sankyo Tateyama, Oki Electric and Leoplace 21.

Sankyo Tateyama manufactures aluminium sashes and construction materials. Shares in the company suffered from setbacks during the review period, hurt by tightening margins and disappointing trading at its recently acquired German and Thai businesses. We believe that the poor results at these divisions has partly obscured better performance at the rest of the business and that, given time, other investors will begin to appreciate the value of the overall business.

Oki Electric, a manufacturer of ATMs and printers, is a newcomer to the portfolio. The company has faced a number of challenges recently; in China, one of Oki's main distributors for ATMs terminated its agreement, and in Brazil, its ATM business has suffered from disappointing sales and poor profitability. Meanwhile, its printer division is struggling. However, we believe these issues are being addressed. Oki has signed up a new distributor in China and, in the long term, Brazil should provide significant growth opportunities. Furthermore, in its printer division, Oki continues to make progress shifting its product

mix away from the more commoditised (high volume and low margin) areas of the market, albeit at a slower rate than management had initially indicated.

Despite reporting solid results, Leoplace 21, a real estate company that constructs, sells, leases and manages apartments, held back returns, after its shares suffered from investors selling their stakes to take advantage of gains. Some investors are concerned over occupancy levels; however, we believe the negative sentiment has been overdone.

Investment activities

Investment activity during the review period focused on the recycling of cash out of businesses we believed had become overvalued and topping up holdings which we think were undervalued. In addition, we initiated positions in Seiko and Oki Electric, mentioned previously.

Seiko is a manufacturer of watches and electronic devices. The company faces a number of headwinds, including reduced demand for watches following the clampdown on corruption in China, elevated inventory levels, high gold prices and a stronger yen. Seiko also needs to adapt to the threat from smart watches. We accept the short-term outlook for Seiko is uncertain and recognise that margins are under pressure. However, in our view, investors are misinterpreting Seiko's challenges and therefore, we believe the shares are undervalued.

On the other hand, we exited holdings in technology company Advantest and Chugoku Marine Paints, a leading supplier of marine coatings. Other investors had begun to recognise the strength of Chugoku's underlying business, which resulted in its shares performing well, so we decided to close the position. In addition, we closed the position in Xebio, a retailer specialising in sports equipment and clothing, as it is facing increased competition from other sports retailers, particularly ones with a strong internet offering.

CAC Holdings, an IT service provider, Ahresty, a manufacturer of light alloy diecasts mainly for the auto industry and Tokai Carbon, a stockist of specialist graphite materials used in areas such as the nuclear industry, also left the portfolio.

Outlook

We believe the valuation of Japanese shares is compelling. In our opinion, the changes happening in Japan today are structural and can lead to sustained improvement in corporate earnings. Changes to the stewardship and governance codes governing investors have resulted in their increased engagement with companies. In turn, companies have become more focused on shareholder value, and have also significantly improved both their cost structures and profitability.

This is good news for the economy, as profitable companies have the resources to invest, and the changing corporate culture will ultimately benefit shareholders. Furthermore, nominal wages finally appear to be growing again and the unemployment rate has fallen to levels not seen in 20 years. Both these changes should help invigorate the Japanese economy.

However, these changes have not been reflected in market valuations. The experience of the global financial crisis still lingers in many investors' minds and their beliefs remain anchored in the past. Consequently, some investors are not willing to buy equities at these levels, which is creating significant investment opportunities.

M&G Japan Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

In our view, these positive changes in corporate behaviour and the environment in which companies operate should be supportive of sustainable long-term returns. By our assessment, it is now a stockpickers market, well-suited to an active management approach.

Johan Du Preez

Fund manager

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

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

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

Investments

Portfolio statement

as at Holding	28.02.17 ¥'000	28.02.17 %	31.08.16 %
Equities	32,401,039	96.62	99.76
Chemicals	2,959,474	8.82	11.73
249,700 DIC	1,023,770	3.05	
673,400 JSR	1,291,581	3.85	
245,100 Tocalo	644,123	1.92	
Industrial metals & mining	1,027,988	3.07	3.86
616,300 Sankyo Tateyama	1,027,988	3.07	
General industrials	1,012,072	3.02	3.55
866,500 Sumitomo Riko	1,012,072	3.02	
Electronic & electrical equipment	2,260,560	6.74	6.43
1,250,000 Denki Kogyo	696,250	2.08	
3,715,700 Wacom	1,564,310	4.66	
Industrial engineering	3,264,622	9.73	10.71
314,700 Ebara	1,040,084	3.10	
219,400 Mars Engineering	520,636	1.55	
474,800 Nittoku Engineering	1,051,207	3.13	
821,000 Sumitomo Heavy Industries	652,695	1.95	
Industrial transportation	2,021,703	6.03	6.61
1,363,000 KYB	821,889	2.45	
3,234,000 Mitsui O.S.K. Lines	1,199,814	3.58	
Support services	2,064,631	6.16	6.45
314,000 Hamakyorex	744,808	2.22	
604,000 Hosokawa Micron	502,528	1.50	
733,000 Relia	817,295	2.44	
Automobiles & parts	1,794,563	5.35	8.08
453,300 Nissan Kogyo	904,787	2.70	
200,400 Riken	889,776	2.65	
Leisure goods	1,387,214	4.14	3.74
808,400 Nikon	1,387,214	4.14	
Personal goods	636,546	1.90	2.25
766,000 Onward Holdings	636,546	1.90	
Pharmaceuticals & biotechnology	144,970	0.43	1.67
43,600 Tsumura	144,970	0.43	
General retailers	3,349,721	9.99	7.08
148,100 cocokara fine	702,734	2.10	
156,100 Dena	394,309	1.18	
224,200 Komeri	621,707	1.85	
28,000 Shimamura	407,120	1.21	
346,700 United Arrows	1,223,851	3.65	

Portfolio statement (continued)

as at Holding	28.02.17 ¥'000	28.02.17 %	31.08.16 %
Banks	1,022,340	3.05	4.06
650,000 Awa Bank	512,850	1.53	
133,200 Tokyo Ty Financial	509,490	1.52	
Real estate investment & services	3,308,442	9.86	7.87
484,800 Iida Group	920,635	2.74	
1,339,900 Leopalace21	790,541	2.36	
563,300 Sanyo Housing Nagoya	567,243	1.69	
360,400 Sumitomo Real Estate	1,030,023	3.07	
Financial services	1,280,175	3.82	4.58
507,000 IBJ Leasing Company	1,280,175	3.82	
Equity investment instruments	1,022,826	3.05	2.62
3,479,000 Monex Group	1,022,826	3.05	
Software & computer services	0	0.00	1.15
Technology hardware & equipment	3,843,192	11.46	7.32
164,100 Daikoku Denki	293,903	0.88	
736,300 OKI Electric Industry	1,175,871	3.51	
108,500 Rohm	786,625	2.34	
1,235,000 Sanken Electric	611,325	1.82	
2,028,000 Seiko	975,468	2.91	
Futures contracts	(2,896)	(0.01)	0.00
63 TOPIX Index Future March 2017	(2,896)	(0.01)	
Portfolio of investments	32,398,143	96.61	99.76
'AAA' rated money market funds [a]	108,904	0.32	0.00
780,000 Northern Trust Global Fund - Sterling	108,904	0.32	
Total portfolio	32,507,047	96.93	99.76
Net other assets / (liabilities)	1,028,049	3.07	0.24
Net assets attributable to shareholders	33,535,096	100.00	100.00

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

Largest purchases	¥'000
OKI Electric Industry	1,226,208
United Arrows	1,006,588
Seiko	884,849
Iida Group	786,569
Wacom	773,671
Nikon	758,885
Sanken Electric	754,797
Leopalace21	638,206
Monex Group	556,630
Ebara	536,337
Other purchases	9,596,743
Total purchases	17,519,483
Largest sales	¥'000
Tokai Carbon	631,107
Sumitomo Heavy Industries	622,484
Tsumura	517,122
Rohm	468,229
Ahresty	440,729
Sanken Electric	354,215
Xebio	280,630
Advantest	270,591
KYB	251,315
CAC	215,948
Other sales	1,514,451
Total sales	5,566,821

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

M&G Japan Smaller Companies Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

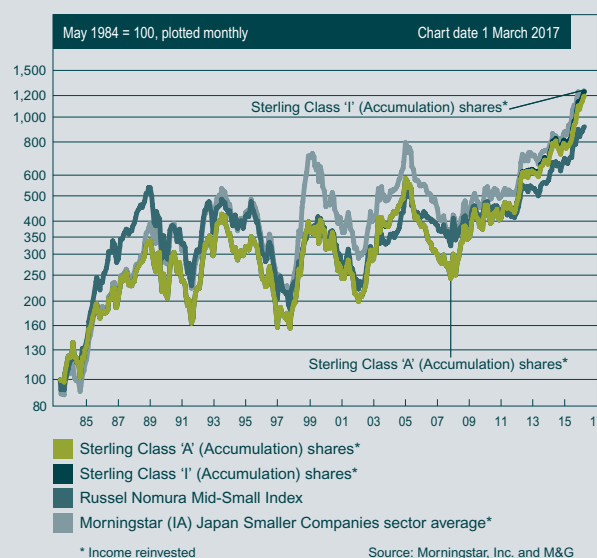
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	28.02.17 ¥'000	31.08.16 ¥'000	31.08.15 ¥'000
Fund net asset value (NAV)	33,535,096	15,171,162	22,494,035

Performance since launch

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



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

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

	Six months 01.09.16 % [a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+25.0	+24.2	+21.4	+7.7 [c]
Class 'C'	+25.5	+25.1	+22.3	+8.5 [c]
Sterling [d]				
Class 'A'	+27.1	+25.8	+21.9	+7.8 [e]
Class 'I'	+27.5	+26.8	n/a	+24.7 [f]
Class 'R'	+27.4	+26.4	n/a	+24.4 [f]
Class 'X'	+27.0	+25.8	+21.9	+12.2 [g]
US dollar [b]				
Class 'A'	+18.1	n/a	n/a	+18.0 [h]
Class 'C'	+18.6	n/a	n/a	+18.9 [h]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] Price to price with income reinvested.

[e] 15 May 1984, the end of the initial offer period of the predecessor unit trust.

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

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

[h] 9 October 2015, the launch date of the share class.

M&G Japan Smaller Companies Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.07	0.16	0.15	0.13
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.07	0.16	0.15	0.13
Dilution adjustments ^[c]	(0.07)	(0.05)	(0.14)	(0.09)
Total direct portfolio transaction costs	0.00	0.11	0.01	0.04
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.27	0.24	0.17	0.23

^[a] Average of first three columns.

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

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

M&G Japan Smaller Companies Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	2,490.82	2,242.98	1,866.26
Return before operating charges and after direct portfolio transaction costs	636.44	287.16	413.81
Operating charges	(24.07)	(39.32)	(37.09)
Return after operating charges	612.37	247.84	376.72
Distributions	n/a	(10.56)	(0.37)
Retained distributions	n/a	10.56	0.37
Closing NAV	3,103.19	2,490.82	2,242.98
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.05	3.73	3.30
Dilution adjustments ^[b]	(1.05)	(1.06)	(3.10)
Total direct portfolio transaction costs	0.00	2.67	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	1.69	1.69	1.70
Return after operating charges	+24.59	+11.05	+20.19
Historic yield	0.33	0.42	0.02
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	13,418,727	5,587,955	6,743,152
Closing NAV percentage of total fund NAV (%)	40.01	36.83	29.97
Number of shares	3,634,188	1,950,294	2,205,740
Highest share price (Euro ¢)	3,134.69	2,519.73	2,556.24
Lowest share price (Euro ¢)	2,462.48	1,999.39	1,766.49

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	2,778.17	2,483.03	2,050.60
Return before operating charges and after direct portfolio transaction costs	710.71	319.36	454.63
Operating charges	(14.82)	(24.22)	(22.20)
Return after operating charges	695.89	295.14	432.43
Distributions	n/a	(32.68)	(18.64)
Retained distributions	n/a	32.68	18.64
Closing NAV	3,474.06	2,778.17	2,483.03
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.16	4.13	3.55
Dilution adjustments ^[b]	(1.16)	(1.17)	(3.34)
Total direct portfolio transaction costs	0.00	2.96	0.21
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	0.94	0.94	0.94
Return after operating charges	+25.05	+11.89	+21.09
Historic yield	0.92	1.15	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	2,356,764	1,189,790	1,323,930
Closing NAV percentage of total fund NAV (%)	7.03	7.84	5.89
Number of shares	570,143	372,306	391,201
Highest share price (Euro ¢)	3,508.90	2,794.78	2,821.75
Lowest share price (Euro ¢)	2,747.41	2,220.87	1,942.86

Sterling Class 'A' Income share performance

The share class was launched on 15 May 1984.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	426.32	333.15	300.61
Return before operating charges and after direct portfolio transaction costs	111.77	100.78	38.14
Operating charges	(4.42)	(6.23)	(5.57)
Return after operating charges	107.35	94.55	32.57
Distributions	n/a	(1.38)	(0.03)
Closing NAV	533.67	426.32	333.15
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.57	0.49
Dilution adjustments ^[b]	(0.19)	(0.16)	(0.47)
Total direct portfolio transaction costs	0.00	0.41	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	1.70	1.71	1.70
Return after operating charges	+25.18	+28.38	+10.83
Historic yield ^[c]	1.33	0.32	0.01
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (¥'000)	3,306,038	395,814	4,219,006
Closing NAV percentage of total fund NAV (%)	9.86	2.61	18.75
Number of shares	4,436,992	684,585	6,810,663
Highest share price (UK p)	535.36	438.14	373.84
Lowest share price (UK p)	422.09	314.80	285.39

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Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 15 May 1984.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	449.18	349.58	315.41
Return before operating charges and after direct portfolio transaction costs	117.41	106.09	40.04
Operating charges	(4.32)	(6.49)	(5.87)
Return after operating charges	113.09	99.60	34.17
Distributions	n/a	(1.88)	(0.03)
Retained distributions	n/a	1.88	0.03
Closing NAV	562.27	449.18	349.58
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.61	0.52
Dilution adjustments ^[b]	(0.19)	(0.17)	(0.49)
Total direct portfolio transaction costs	0.00	0.44	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	1.69	1.69	1.70
Return after operating charges	+25.18	+28.49	+10.83
Historic yield	0.32	0.41	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	1,921,271	1,365,071	2,450,951
Closing NAV percentage of total fund NAV (%)	5.73	9.00	10.90
Number of shares	2,447,337	2,240,835	3,770,656
Highest share price (UK p)	564.05	460.15	392.25
Lowest share price (UK p)	444.71	330.60	299.46

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	2,085.10	1,630.16	1,470.88
Return before operating charges and after direct portfolio transaction costs	546.14	496.56	187.16
Operating charges	(11.30)	(16.80)	(15.56)
Return after operating charges	534.84	479.76	171.60
Distributions	n/a	(24.82)	(12.32)
Closing NAV	2,619.94	2,085.10	1,630.16
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.89	2.87	2.48
Dilution adjustments ^[b]	(0.89)	(0.81)	(2.33)
Total direct portfolio transaction costs	0.00	2.06	0.15
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	0.93	0.94	0.95
Return after operating charges	+25.65	+29.43	+11.67
Historic yield ^[c]	1.51	1.18	0.76
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (¥000)	2,166,538	1,091,743	1,273,727
Closing NAV percentage of total fund NAV (%)	6.46	7.19	5.66
Number of shares	592,280	386,070	420,216
Highest share price (UK p)	2,628.23	2,160.76	1,837.67
Lowest share price (UK p)	2,065.12	1,546.55	1,397.71

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	2,167.19	1,673.96	1,499.02
Return before operating charges and after direct portfolio transaction costs	567.47	510.45	190.98
Operating charges	(11.66)	(17.22)	(16.04)
Return after operating charges	555.81	493.23	174.94
Distributions	n/a	(25.51)	(12.58)
Retained distributions	n/a	25.51	12.58
Closing NAV	2,723.00	2,167.19	1,673.96
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.91	2.94	2.56
Dilution adjustments ^[b]	(0.91)	(0.83)	(2.41)
Total direct portfolio transaction costs	0.00	2.11	0.15
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	0.94	0.94	0.95
Return after operating charges	+25.65	+29.46	+11.67
Historic yield	0.91	1.16	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥000)	8,680,679	4,347,014	4,371,738
Closing NAV percentage of total fund NAV (%)	25.89	28.65	19.44
Number of shares	2,283,272	1,478,995	1,404,543
Highest share price (UK p)	2,731.57	2,219.41	1,872.88
Lowest share price (UK p)	2,146.32	1,588.52	1,424.56

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	208.44	162.94	147.01
Return before operating charges and after direct portfolio transaction costs	54.55	49.57	18.70
Operating charges	(1.41)	(2.12)	(1.95)
Return after operating charges	53.14	47.45	16.75
Distributions	n/a	(1.95)	(0.82)
Closing NAV	261.58	208.44	162.94
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.29	0.25
Dilution adjustments ^[b]	(0.09)	(0.08)	(0.23)
Total direct portfolio transaction costs	0.00	0.21	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	1.19	1.19	1.20
Return after operating charges	+25.49	+29.12	+11.39
Historic yield ^[c]	1.48	0.92	0.51
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (¥000)	17,086	11,913	15,698
Closing NAV percentage of total fund NAV (%)	0.05	0.08	0.07
Number of shares	46,782	42,139	51,813
Highest share price (UK p)	262.41	215.48	183.40
Lowest share price (UK p)	206.42	154.42	139.66

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Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	214.47	166.09	149.10
Return before operating charges and after direct portfolio transaction costs	56.08	50.51	18.96
Operating charges	(1.41)	(2.13)	(1.97)
Return after operating charges	54.67	48.38	16.99
Distributions	n/a	(1.99)	(0.83)
Retained distributions	n/a	1.99	0.83
Closing NAV	269.14	214.47	166.09
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.29	0.25
Dilution adjustments ^[b]	(0.09)	(0.08)	(0.23)
Total direct portfolio transaction costs	0.00	0.21	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	1.20	1.18	1.20
Return after operating charges	+25.49	+29.13	+11.40
Historic yield	0.72	0.92	0.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	67,611	60,086	97,847
Closing NAV percentage of total fund NAV (%)	0.20	0.40	0.43
Number of shares	179,927	206,580	316,836
Highest share price (UK p)	269.99	219.65	185.99
Lowest share price (UK p)	212.38	157.42	141.64

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	423.69	331.13	298.79
Return before operating charges and after direct portfolio transaction costs	110.74	100.48	37.94
Operating charges	(4.05)	(6.12)	(5.57)
Return after operating charges	106.69	94.36	32.37
Distributions	n/a	(1.80)	(0.03)
Closing NAV	530.38	423.69	331.13
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.18	0.58	0.50
Dilution adjustments ^[b]	(0.18)	(0.16)	(0.47)
Total direct portfolio transaction costs	0.00	0.42	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	1.69	1.69	1.71
Return after operating charges	+25.18	+28.50	+10.83
Historic yield ^[c]	1.41	0.42	0.01
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (¥'000)	321,431	257,507	338,614
Closing NAV percentage of total fund NAV (%)	0.96	1.70	1.51
Number of shares	434,061	448,137	549,959
Highest share price (UK p)	532.06	435.89	371.58
Lowest share price (UK p)	419.49	313.16	283.68

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	445.77	346.92	313.02
Return before operating charges and after direct portfolio transaction costs	116.51	105.30	39.64
Operating charges	(4.27)	(6.45)	(5.74)
Return after operating charges	112.24	98.85	33.90
Distributions	n/a	(1.88)	(0.04)
Retained distributions	n/a	1.88	0.04
Closing NAV	558.01	445.77	346.92
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.61	0.51
Dilution adjustments ^[b]	(0.19)	(0.17)	(0.48)
Total direct portfolio transaction costs	0.00	0.44	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	0.01
Operating charges	1.69	1.69	1.71
Return after operating charges	+25.18	+28.49	+10.83
Historic yield	0.33	0.42	0.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (¥'000)	1,110,975	856,715	1,659,372
Closing NAV percentage of total fund NAV (%)	3.31	5.65	7.38
Number of shares	1,425,974	1,417,076	2,572,387
Highest share price (UK p)	559.78	456.66	389.26
Lowest share price (UK p)	441.34	328.10	297.18

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 October 2015.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,065.05	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	207.81	79.88	n/a
Operating charges	(10.34)	(14.83)	n/a
Return after operating charges	197.47	65.05	n/a
Distributions	n/a	(4.66)	n/a
Retained distributions	n/a	4.66	n/a
Closing NAV	1,262.52	1,065.05	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.45	1.42	n/a
Dilution adjustments ^[b]	(0.45)	(0.40)	n/a
Total direct portfolio transaction costs	0.00	1.02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	n/a
Operating charges	1.72	1.69	n/a
Return after operating charges	+18.54	+6.51	n/a
Historic yield	0.36	0.43	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥'000)	51,512	4,233	n/a
Closing NAV percentage of total fund NAV (%)	0.15	0.03	n/a
Number of shares	36,353	3,850	n/a
Highest share price (US ¢)	1,270.21	1,074.20	n/a
Lowest share price (US ¢)	1,062.33	867.51	n/a

M&G Japan Smaller Companies Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 October 2015.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,072.15	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	209.58	80.43	n/a
Operating charges	(6.07)	(8.28)	n/a
Return after operating charges	203.51	72.15	n/a
Distributions	n/a	(12.68)	n/a
Retained distributions	n/a	12.68	n/a
Closing NAV	1,275.66	1,072.15	n/a
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.48	1.42	n/a
Dilution adjustments ^[b]	(0.48)	(0.40)	n/a
Total direct portfolio transaction costs	0.00	1.02	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.11	n/a
Operating charges	0.93	0.94	n/a
Return after operating charges	+18.98	+7.22	n/a
Historic yield	0.98	1.16	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (¥000)	116,464	3,321	n/a
Closing NAV percentage of total fund NAV (%)	0.35	0.02	n/a
Number of shares	81,344	3,000	n/a
Highest share price (US ¢)	1,283.33	1,081.09	n/a
Lowest share price (US ¢)	1,069.75	869.71	n/a

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

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

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

M&G Japan Smaller Companies Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	¥'000	¥'000	¥'000	¥'000
Income				
Net capital gains / (losses)		5,364,327		(2,624,257)
Revenue	180,263		179,912	
Expenses	(158,679)		(136,711)	
Net revenue / (expense) before taxation	21,584		43,201	
Taxation	(18,565)		(18,110)	
Net revenue / (expense) after taxation		3,019		25,091
Total return before equalisation		5,367,346		(2,599,166)
Equalisation		59,150		13,886
Change in net assets attributable to shareholders from investment activities		5,426,496		(2,585,280)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	¥'000	¥'000	¥'000	¥'000
Opening net assets attributable to shareholders		15,171,162		22,494,035
Amounts received on issue of shares	18,790,850		5,035,390	
Amounts paid on cancellation of shares	(5,890,850)		(8,096,296)	
Value of in-specie transfers paid	0		(4,212)	
		12,900,000		(3,065,118)
Dilution adjustments		37,438		13,598
Change in net assets attributable to shareholders from investment activities (see above)		5,426,496		(2,585,280)
Closing net assets attributable to shareholders		33,535,096		16,857,235

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	¥'000	¥'000
Assets		
Fixed assets		
Investments	32,509,943	15,134,563
Current assets		
Debtors	1,089,167	228,641
Cash and bank balances	1,101,493	34,290
Total assets	34,700,603	15,397,494
Liabilities		
Investment liabilities	(2,896)	0
Creditors		
Distribution payable	0	(15,479)
Other creditors	(1,162,611)	(210,853)
Total liabilities	(1,165,507)	(226,332)
Net assets attributable to shareholders	33,535,096	15,171,162

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G North American Dividend Fund

Authorised Corporate Director's Report

Investment objective

The Fund aims to maximise total return (the combination of capital growth and income) whilst aiming to grow distributions over the long term.

Investment policy

The Fund will invest mainly in North American equities and may invest across all sectors and market capitalisations. The Fund may also invest in transferable securities issued by companies which are listed, registered or trading within North America and in collective investment schemes. Cash and near cash may be held for ancillary purposes and derivatives, including warrants, may be used for efficient portfolio management and hedging purposes.

Investment approach

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

The fund manager aims to create a diversified portfolio with exposure to a broad range of sectors. He selects stocks with different drivers of dividend growth to construct a portfolio that has the potential to cope in a variety of market conditions. The fund will usually hold around 40 to 50 stocks, with a long-term investment view and a typical holding period of three to five years.

Risk profile

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

The fund's focus is on shares of companies that have the potential to grow their dividends over the long term. Income distributions from the fund's holdings, however, are not guaranteed and may vary. Diversification across industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.

- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has changed during this period. From 1 September 2016 to 30 December 2016 the risk number was 6.

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Distribution summary

Over the six-month period, the fund distributed income of 13.00 cents per US dollar Class 'A' (Income) share. This is the same distribution as the payment made in the same period last year. We focus on companies with the propensity to increase dividends over three to five years, and we are pleased with the current progress of our underlying holdings. (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.)

All of the fund's holdings that reported dividends over the period grew their payments or held them flat. The majority of our holdings announced increases of 5% to 15%, and it was pleasing that a range of sectors featured among this core group of dividend growers. Some of the largest increases came from Nike (consumer discretionary), FIS (information technology), Becton Dickinson (healthcare), Union Pacific (industrials), and BlackRock (financials). Reynolds American, the tobacco company, was also in this core group, and the 11% increase that it announced in February was in fact its second raise over the past year. It was even more encouraging that three firms surpassed this range: Broadcom, the semiconductor technology firm, doubled its quarterly payment in December; Home Depot, the home improvement supplies retailer, raised its dividend by 29% and MasterCard, the electronic payments company, increased its dividend by 16%. Only a handful of the fund's holdings increased their dividends by less than 5% or held them flat. There were no cuts.

We are on track to meet the fund's objective of growing its distribution this financial year. This is pleasing because, as we have mentioned previously, we had feared that a change in the fund's tax status might thwart our ability to deliver on this objective.

The fund's distribution and distribution yield are shown in the 'Specific share class performance' tables in this report. The distribution is subject to a number of influences, including changes in the market environment and the fund's tax status, and as a result, there is no guarantee that the fund will increase the distribution in every reporting period.

Performance against objective

Between 1 September 2016 and 1 March 2017, the fund's total return (the combination of income and growth of capital) was positive across all its share classes^(a) and ahead of the S&P 500, a comparative index. The index returned 20.5%, 18.3% and 11.5% in sterling, euro and US dollar terms, respectively.

The fund has met its objective of maximising total return since it was introduced in April 2015 and over five years. As noted previously, growing distributions has not been part of the fund's objective for long enough for us to assess its performance in this regard.

M&G North American Dividend Fund

Authorised Corporate Director's Report

Investment review

Investment performance

During the review period, North American (and indeed global) stockmarkets experienced a meaningful rotation away from defensive sectors and towards the cyclical areas of the market. (Defensive stocks are companies that tend to have stable earnings and are less affected by peaks and troughs in the economy; cyclical stocks are those that are more sensitive to economic activity.) This shift in market sentiment was accelerated by Donald Trump's election as US president, which sparked a reappraisal of economic prospects, but the trend had started several months before.

In this environment, financials performed best, supported by the announcement of interest rate hikes from the Federal Reserve (the Fed), whereas the healthcare sector was the notable laggard as a result of concerns over drug pricing in the US. Fixed income assets, also known as bonds, sold off, and the 'bond-proxy' sectors of telecommunications and utilities consequently struggled as safety was no longer so highly prized. (Bond proxies are stocks with bond-like characteristics.) Energy-related industries benefited from a rally in the oil price after The Organization of the Petroleum Exporting Countries (OPEC) announced a production cut in November.

Against this background, Methanex, the methanol producer, made the largest contribution to fund performance, returning just under 80% over the review period. (All references to returns and percentage changes are implicitly in US dollars, unless stated otherwise.) The company announced solid third- and fourth-quarter results, which reinforce our conviction in the strength of its fundamentals and potential for cash generation. Methanex's performance was also supported by the favourable environment for methanol prices and the positive sentiment towards energy-related stocks following news of OPEC's production cut. Trading at a meaningful discount to the replacement cost of assets and generating significant free cashflow (that is to say, the cashflow generated from operating activities after deducting the company's spending requirements), we continue to believe that the market underappreciates Methanex's fundamentals and that its valuation is far from appropriate levels.

Two of our holdings generated significant returns in the wake of takeover bids. In October, Reynolds American received a takeover bid from British American Tobacco (BAT), as a result of which its share price jumped 17%. Then, in January, Reynolds accepted a higher offer from BAT, leading to further gains and to the stock returning 26% over the review period. Time Warner, the media and entertainment group, saw its share price increase by 12% after telecoms conglomerate AT&T agreed to acquire the company. Mead Johnson, the nutrition company, was also a recipient of a takeover offer. Reckitt Benckiser made a bid to acquire the firm in February, causing Mead Johnson's share price to rise by 20%.

M&T Bank led the pack in financials, returning over 40% during the period. A combination of strong third-quarter results, the market's rotation towards cyclical sectors and the rising interest rate environment in the US propelled the company's share price. Wells Fargo, our second-largest US bank holding, performed well for similar reasons and returned 15% over the period. We continue to believe that these stocks are cheap and positioned to perform well as interest rates edge up.

The fund's technology holdings added value as a result of their positive earnings announcements. Broadcom made a significant contribution to fund performance after it carried the momentum from its first-quarter results in December through to the end of the review period. MasterCard and Microsoft also performed well, announcing earnings ahead of market expectations in consecutive quarters in October and January. By contrast, Sabre, the travel software company, was the largest detractor from fund performance due to underwhelming results and the lowering of expectations.

Medtronic, a medical equipment firm, was the second-biggest detractor after it lowered its guidance for the financial year and struggled in the context of the broader rotation away from defensives. We believe that new products should drive revenue back to previous expectations and therefore we continue to back the holding.

UnitedHealth bucked the trend in defensives and managed to rank as one of the top contributors to fund performance, which was particularly pleasing. In November, its positive outlook for 2017 was well received, and its fourth-quarter earnings sent its share price even higher in January. Allergan, the pharmaceutical firm that joined the fund in November, reported strong fourth-quarter earnings in February and was consequently another healthcare holding to outperform.

Investment activities

There were eight new purchases and four complete sales from September to February, and the fund therefore ended the review period with 43 holdings. It was a relatively busy period in terms of activity as we took advantage of market volatility to initiate various new positions.

We established a position in Six Flags, the theme-park owner, in September. Its business model is highly cash-generative, with substantial growth opportunities in its core markets through innovation and pricing, as well as the potential to cut costs and improve efficiency. In addition, the company has a long-term strategy for international expansion driven by licensing, and has highly profitable existing agreements in Dubai, China and Vietnam.

We also initiated a position in Gibson Energy, the Canadian infrastructure business. It has high cashflow visibility, long-term contracts and potential for stable dividend growth over time.

In October, we bought a stake in First Republic Bank, which boasts a long history of profitable organic growth and solid financial foundations: excellent credit quality, a loan book with low loan-to-value ratios, and high deposit funding. The purchase was well-timed – we bought the shares just before the rally in US financials entered full swing – and we believe that the stock can continue to grow at double-digit rates going forward.

November saw us start a position in Nike in order to capitalise on the underperformance of the US consumer discretionary sector. In our view, the company is relatively sheltered from the structural challenges to the US retail market as a result of the strength of its brand, the quality of its customer service, and its technical superiority in the athletic footwear segment. Further, it boasts geographical diversification, with the majority of sales coming from outside the US. In this context, we believe that the stock's underperformance was overdone, and since purchase it has started to show signs of rallying.

M&G North American Dividend Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

We also initiated a position in pharmaceutical company Allergan, one of the global leaders in the highly attractive aesthetic healthcare space, in the same month. The company's balance sheet is solid, its valuation is undemanding, and it appears to offer strong potential for dividend growth after announcing its first-ever dividend in November. Our additions to the healthcare space were rounded out in January when we purchased shares in Anthem, one of the largest managed care organisations in the US. In our view, the stock has the potential for meaningful earnings growth in the coming years and is cheap relative to peers.

In February, American Express, the credit and charge card firm, joined the fund. The company has managed to fight back from its difficulties following CostCo's decision to move its co-branded card to Visa by aggressively cutting costs, using excess capital to fund a large buyback, and increasing marketing to acquire new volume in the non-co-branded space. Although American Express has rebounded by 30% from its lows, its valuation still looks compelling and it offers potential for double-digit dividend growth.

We also bought shares in Constellation Brands, the beverage producer and supplier, after a period of weakness driven by the negative rhetoric surrounding President Trump's trade policy, which markets have been linking to the fact that a significant portion of the company's sales come from selling imported Mexican beer brands in the US. However, the firm's pricing and sourcing mean that it has significant protection against the implications of a Border Tax Adjustment. Outside of this, it continues to grow strongly on both top and bottom line, and has a long runway for growth in the mid-teens to continue for many years to come.

Turning to sales, we closed out our position in fast-food company Yum! Brands in November. The shares returned more than 20% over the course of 2016, and we had been reducing it gradually over time and recycling the proceeds into cheaper, more conventional consumer staples names, such as Mead Johnson (before Reckitt Benckiser announced its takeover bid). We also sold our stake in Nordstrom, the fashion retailer, which was not a successful investment, despite rebounding by more than 40% between its low in June and the point of sale. We decided to sell after reassessing the likelihood of the firm realising meaningful returns on its internal investments. Additionally, the sell-off in US retail had created more attractive opportunities elsewhere in the market.

In December, we completed the sale of our stake in Inter Pipeline, realising profits after the stock returned over 40% in 2016 in Canadian dollar terms. We recycled the money from this position into Keyera, another Canadian energy firm, on relative value grounds.

We completed the sale of Chubb, the property and casualty insurer, in February. The stock performed very well since it was bought in its original guise in April 2015, but we had concerns about the level of debt in the enlarged company following the acquisition by ACE. With the potential benefits of the deal seemingly reflected in the price, we took the opportunity to recycle the proceeds into better ideas. We would be happy to invest in Chubb again, but only at a better entry point.

We also modified the scaling of various positions across the period. We reduced the size of our holdings in Time Warner and Reynolds American after the takeover offers caused rapid increases in their share prices. In addition, we realised profits in some of the other positions that had performed particularly well, including Broadcom, UnitedHealth and M&T Bank. These moves funded some of our purchases, and also gave us room to scale into other positions, such as PrairieSky Royalty and Altria.

Outlook

Donald Trump's election as US president in November has certainly had a meaningful impact on financial markets, even in advance of his inauguration in January. With a long list of policy ambitions and a populist style, many industries and investments are likely to see higher levels of "political risk" and volatility over the next few weeks, months and years. Throughout this, our approach and focus will not change. We will continue to look for companies that are long-term winners, and have the ability and intention to grow dividends to shareholders at an attractive pace over time. To the extent that there is extra volatility in the market, we will be ready to act if any of these names are caught up unfairly in political 'noise'.

Although the market has moved upwards noticeably in a short space of time recently, we continue to find areas of attractive valuation in specific stocks as noted above. However, in certain areas, especially industrials, we feel that valuations have moved well ahead of fundamentals and that, regardless of whether the administration passes its proposed US\$1 trillion infrastructure package, many of these names offer unappealing returns over the medium term at current valuations. On a more positive note, fiscal policy is an area that might have the potential to meaningfully change the valuation of many stocks in the market and we continue to monitor those on our investible list that might have material upside should these policies come to fruition.

What appears more tangible, though, is that the market's recent rotation has created an environment in which valuation matters again, which should be rewarding for our style of investing. In this light, the strength of the fund's performance over the review period has been pleasing, but we believe that it is only the beginning of a meaningful move in the right direction for our approach. Dividend trends across the fund are positive and reflect well on the companies' growth potential and financial stability. Going forward, we will continue to invest only in companies that we feel are attractively valued and that have the capacity to grow above market levels. There are still significant gaps between the fundamentals of many of our current holdings and their valuations in the market, and we are hopeful that these will continue to close in 2017 and drive further outperformance.

John Weavers Fund manager

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

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

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

M&G North American Dividend Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Oil & gas producers		0.00	0.00 ^[a]
Oil equipment, services & distribution	68,889	9.46	10.14 ^[a]
679,245 Gibson Energy	9,621	1.32	
356,970 Keyera	10,605	1.45	
837,964 Pembina Pipeline	27,210	3.74	
926,984 PrairieSky Royalty	21,453	2.95	
Chemicals	77,036	10.58	7.16
198,609 LyondellBasell	18,139	2.49	
1,125,056 Methanex	58,897	8.09	
Electronic & electrical equipment	9,608	1.32	1.31
159,039 Emerson Electric	9,608	1.32	
Industrial engineering	7,379	1.01	1.24
48,789 Rockwell Automation	7,379	1.01	
Industrial transportation	9,099	1.25	0.96
84,666 Union Pacific	9,099	1.25	
Beverages	8,170	1.12	0.00
51,793 Constellation Brands	8,170	1.12	
Food producers	16,132	2.22	1.65
99,800 Mead Johnson Nutrition	8,768	1.21	
168,240 Mondelez International	7,364	1.01	
Personal goods	13,281	1.83	1.09
128,204 Nike	7,396	1.02	
73,766 Ralph Lauren	5,885	0.81	
Tobacco	57,456	7.89	7.54
235,285 Altria Group	17,545	2.41	
648,019 Reynolds American	39,911	5.48	
Healthcare equipment & services	85,635	11.77	12.52
78,644 Anthem	12,968	1.78	
51,680 Becton Dickinson	9,447	1.30	
321,407 Medtronic	25,950	3.57	
225,390 UnitedHealth Group	37,270	5.12	
Pharmaceuticals & biotechnology	32,861	4.52	2.79
59,730 Allergan	14,710	2.02	
148,307 Johnson & Johnson	18,151	2.50	
Food & drug retailers	15,226	2.09	2.47
184,578 Cardinal Health	15,226	2.09	
General retailers	29,357	4.03	3.99
158,330 Home Depot	22,997	3.16	
121,397 L Brands	6,360	0.87	
Media	9,589	1.32	2.83
97,647 Time Warner	9,589	1.32	
Travel & leisure	35,746	4.91	5.40
538,824 Las Vegas Sands	28,504	3.92	
120,702 Six Flags Entertainment	7,242	0.99	
Banks	61,810	8.49	7.95
54,858 First Republic Bank San Francisco	5,232	0.72	
107,717 JPMorgan Chase	9,741	1.34	
130,492 M&T Bank	21,916	3.01	
429,226 Wells Fargo	24,921	3.42	
Non-life insurance	10,882	1.50	2.51
122,800 Arthur J. Gallagher & Co.	6,997	0.96	
31,831 The Travelers Companies	3,885	0.54	
Financial services	27,960	3.84	3.72
136,208 American Express	10,921	1.50	
29,665 BlackRock	11,599	1.59	
166,651 Invesco	5,440	0.75	

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Software & computer services	104,629	14.37	16.69
322,740 FIS	26,662	3.66	
225,524 MasterCard	24,936	3.42	
516,496 Microsoft	33,169	4.56	
914,894 Sabre	19,862	2.73	
Technology hardware & equipment	39,834	5.47	6.33
62,334 Apple	8,536	1.17	
146,752 Broadcom	31,298	4.30	
Portfolio of investments	720,579	98.99	98.29
'AAA' rated money market funds ^[b]	3,913	0.54	1.69
3,913,000 Northern Trust Global Fund - US dollar	3,913	0.54	
Forward currency contracts for share class hedging	(500)	(0.07)	(0.05)
CAD152,077 Bought for €109,469 (expires 08.03.17)	(1)	0.00	
€2,565,281 Bought for CAD3,616,900 (expires 08.03.17)	(25)	0.00	
€25,383,799 Bought for \$27,404,168 (expires 08.03.17)	(488)	(0.07)	
€(1,862,422) Sold for \$1,988,557 (expires 08.03.17)	14	0.00	
Total portfolio	723,992	99.46	99.93
Net other assets / (liabilities)	3,923	0.54	0.07
Net assets attributable to shareholders	727,915	100.00	100.00

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

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

	\$'000
Largest purchases	
Allergan	12,205
Anthem	11,793
American Express	10,816
Gibson Energy	9,018
Constellation Brands	7,805
PrairieSky Royalty	6,945
Nike	6,872
Six Flags Entertainment	6,542
Reynolds American	6,480
Altria Group	6,014
Other purchases	76,613
Total purchases	161,103
Largest sales	
Inter Pipeline	15,015
Reynolds American	11,794
Time Warner	11,734
Broadcom	10,493
UnitedHealth Group	9,303
M&T Bank	7,034
Yum! Brands	6,183
BlackRock	4,815
Becton Dickinson	4,526
MasterCard	4,155
Other sales	39,722
Total sales	124,774

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

M&G North American Dividend Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

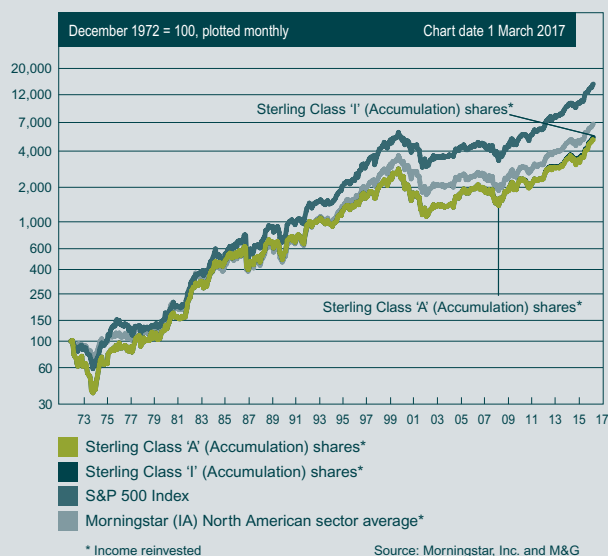
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	28.02.17 \$'000	31.08.16 \$'000	31.08.15 \$'000
Fund net asset value (NAV)	727,915	604,031	711,282

Performance since launch

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



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

M&G North American Dividend Fund

Financial highlights

Fund performance

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

Long-term performance by share class

	Six months 01.09.16 % [a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+21.2	+18.5	+16.7	+4.7 [c]
Class 'A-H'	+14.2	+7.9	+11.0	+6.7 [d]
Class 'C'	+21.6	+19.4	+17.6	+5.4 [c]
Class 'C-H'	+14.5	+8.7	+11.8	+9.6 [e]
Sterling [f]				
Class 'A'	+23.1	+20.0	+17.3	+9.3 [g]
Class 'I'	+23.6	+20.9	n/a	+19.7 [h]
Class 'R'	+23.4	+20.6	n/a	+19.4 [h]
Class 'X'	+23.1	+20.0	+17.3	+12.5 [i]
US dollar [b]				
Class 'A'	+14.5	+8.4	+11.4	+5.2 [j]
Class 'C'	+14.9	+9.2	+12.2	+6.0 [j]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] 12 September 2008, the launch date of the share class.

[e] 1 October 2010, the launch date of the share class.

[f] Price to price with income reinvested.

[g] 18 December 1972, the end of the initial offer period of the predecessor unit trust.

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

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

[j] 9 March 2007, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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

	Six months to 28.02.17 %	Year to 31.08.16 %	Year to 31.08.15 %	Average [a] %
Direct portfolio transaction costs [b]				
Broker commission	0.05	0.05	0.11	0.07
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.05	0.05	0.11	0.07
Dilution adjustments [c]	(0.03)	(0.02)	(0.06)	(0.04)
Total direct portfolio transaction costs	0.02	0.03	0.05	0.03
as at				
Indirect portfolio transaction costs	28.02.17 %	31.08.16 %	31.08.15 %	Average [a] %
Average portfolio dealing spread	0.07	0.03	0.05	0.05

[a] Average of first three columns.

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

[c] In respect of direct portfolio transaction costs.

M&G North American Dividend Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 Euro €	Year to 31.08.16 Euro €	Year to 31.08.15 Euro €
Change in NAV per share			
Opening NAV	1,615.71	1,492.21	1,326.27
Return before operating charges and after direct portfolio transaction costs	339.87	186.86	202.87
Operating charges	(14.59)	(25.58)	(26.51)
Return after operating charges	325.28	161.28	176.36
Distributions	(15.80)	(37.78)	(10.42)
Closing NAV	1,925.19	1,615.71	1,492.21
Direct portfolio transaction costs ^[a]	Euro €	Euro €	Euro €
Costs before dilution adjustments	0.43	0.80	1.87
Dilution adjustments ^[b]	(0.27)	(0.32)	(0.92)
Total direct portfolio transaction costs	0.16	0.48	0.95
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.67	1.66	1.66
Return after operating charges	+20.13	+10.81	+13.30
Historic yield	1.98	2.32	2.57
Effect on yield of charges offset against capital	1.67	1.66	0.00
Other information			
Closing NAV (\$'000)	581	320	395
Closing NAV percentage of total fund NAV (%)	0.08	0.05	0.06
Number of shares	28,455	17,756	23,481
Highest share price (Euro €)	1,949.60	1,639.36	1,765.26
Lowest share price (Euro €)	1,563.45	1,310.70	1,246.42

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17 Euro €	Year to 31.08.16 Euro €	Year to 31.08.15 Euro €
Change in NAV per share			
Opening NAV	1,666.94	1,502.91	1,326.70
Return before operating charges and after direct portfolio transaction costs	351.08	189.76	201.94
Operating charges	(14.90)	(25.73)	(25.73)
Return after operating charges	336.18	164.03	176.21
Distributions	(4.19)	(38.47)	(10.42)
Retained distributions	4.19	38.47	10.42
Closing NAV	2,003.12	1,666.94	1,502.91
Direct portfolio transaction costs ^[a]	Euro €	Euro €	Euro €
Costs before dilution adjustments	0.44	0.81	1.80
Dilution adjustments ^[b]	(0.28)	(0.32)	(0.88)
Total direct portfolio transaction costs	0.16	0.49	0.92
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.17	+10.91	+13.28
Historic yield ^[c]	0.71	2.29	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00
Other information			
Closing NAV (\$'000)	46,363	39,906	63,003
Closing NAV percentage of total fund NAV (%)	6.37	6.61	8.86
Number of shares	2,183,219	2,148,603	3,716,533
Highest share price (Euro €)	2,020.33	1,667.72	1,765.72
Lowest share price (Euro €)	1,613.06	1,326.84	1,246.83

Euro Class 'A-H' Accumulation share performance

The share class was launched on 12 September 2008.

	Six months to 28.02.17 Euro €	Year to 31.08.16 Euro €	Year to 31.08.15 Euro €
Change in NAV per share			
Opening NAV	1,523.34	1,402.73	1,447.87
Return before operating charges and after direct portfolio transaction costs	225.11	144.53	(19.96)
Operating charges	(13.36)	(23.92)	(25.18)
Return after operating charges	211.75	120.61	(45.14)
Distributions	(3.77)	(34.72)	(7.41)
Retained distributions	3.77	34.72	7.41
Closing NAV	1,735.09	1,523.34	1,402.73
Direct portfolio transaction costs ^[a]	Euro €	Euro €	Euro €
Costs before dilution adjustments	0.39	0.74	1.76
Dilution adjustments ^[b]	(0.25)	(0.30)	(0.86)
Total direct portfolio transaction costs	0.14	0.44	0.90
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.68	1.68	1.69
Return after operating charges	+13.90	+8.60	-3.12
Historic yield ^[c]	0.72	2.25	2.57
Effect on yield of charges offset against capital	0.01	1.68	0.00
Other information			
Closing NAV (\$'000)	6,755	7,381	8,691
Closing NAV percentage of total fund NAV (%)	0.93	1.22	1.22
Number of shares	367,237	434,897	549,284
Highest share price (Euro €)	1,734.23	1,533.06	1,547.97
Lowest share price (Euro €)	1,487.27	1,249.66	1,312.82

M&G North American Dividend Fund

Financial highlights

Specific share class performance

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	1,757.37	1,610.87	1,427.29
Return before operating charges and after direct portfolio transaction costs	370.28	202.64	217.88
Operating charges	(8.63)	(15.14)	(15.94)
Return after operating charges	361.65	187.50	201.94
Distributions	(17.21)	(41.00)	(18.36)
Closing NAV	2,101.81	1,757.37	1,610.87
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.47	0.87	2.04
Dilution adjustments ^[b]	(0.29)	(0.35)	(1.00)
Total direct portfolio transaction costs	0.18	0.52	1.04
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+20.58	+11.64	+14.15
Historic yield ^[c]	1.98	2.32	2.57
Effect on yield of charges offset against capital	0.91	0.91	0.00
Other information			
Closing NAV (\$'000)	521	458	425
Closing NAV percentage of total fund NAV (%)	0.07	0.08	0.06
Number of shares	23,371	23,371	23,371
Highest share price (Euro ¢)	2,128.18	1,773.16	1,908.57
Lowest share price (Euro ¢)	1,701.05	1,419.73	1,342.71

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	1,833.85	1,641.04	1,437.91
Return before operating charges and after direct portfolio transaction costs	387.34	208.33	218.25
Operating charges	(9.06)	(15.52)	(15.12)
Return after operating charges	378.28	192.81	203.13
Distributions	(10.75)	(42.12)	(18.38)
Retained distributions	10.75	42.12	18.38
Closing NAV	2,212.13	1,833.85	1,641.04
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.49	0.89	1.92
Dilution adjustments ^[b]	(0.31)	(0.36)	(0.94)
Total direct portfolio transaction costs	0.18	0.53	0.98
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+20.63	+11.75	+14.13
Historic yield ^[c]	1.27	2.29	2.57
Effect on yield of charges offset against capital	0.01	0.91	0.00
Other information			
Closing NAV (\$'000)	5,876	5,794	7,372
Closing NAV percentage of total fund NAV (%)	0.81	0.96	1.04
Number of shares	250,542	283,574	398,266
Highest share price (Euro ¢)	2,230.91	1,833.46	1,922.52
Lowest share price (Euro ¢)	1,775.18	1,453.69	1,352.61

Euro Class 'C-H' Accumulation share performance

The share class was launched on 1 October 2010.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	1,582.97	1,444.69	1,483.27
Return before operating charges and after direct portfolio transaction costs	233.31	152.00	(24.17)
Operating charges	(7.71)	(13.72)	(14.41)
Return after operating charges	225.60	138.28	(38.58)
Distributions	(8.89)	(35.90)	(16.30)
Retained distributions	8.89	35.90	16.30
Closing NAV	1,808.57	1,582.97	1,444.69
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.41	0.77	1.81
Dilution adjustments ^[b]	(0.26)	(0.31)	(0.89)
Total direct portfolio transaction costs	0.15	0.46	0.92
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	0.93	0.93	0.94
Return after operating charges	+14.25	+9.57	-2.60
Historic yield ^[c]	1.30	2.23	2.57
Effect on yield of charges offset against capital	0.01	0.93	0.00
Other information			
Closing NAV (\$'000)	20,892	19,404	18,349
Closing NAV percentage of total fund NAV (%)	2.87	3.21	2.58
Number of shares	1,089,617	1,100,176	1,126,027
Highest share price (Euro ¢)	1,807.64	1,592.69	1,592.15
Lowest share price (Euro ¢)	1,545.93	1,292.48	1,346.06

Sterling Class 'A' Income share performance

The share class was launched on 28 March 1977.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	1,497.51	1,195.17	1,150.89
Return before operating charges and after direct portfolio transaction costs	323.73	356.40	72.39
Operating charges	(13.65)	(21.41)	(20.99)
Return after operating charges	310.08	334.99	51.40
Distributions	(14.74)	(32.65)	(7.12)
Closing NAV	1,792.85	1,497.51	1,195.17
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.41	0.67	1.47
Dilution adjustments ^[b]	(0.25)	(0.27)	(0.72)
Total direct portfolio transaction costs	0.16	0.40	0.75
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.67	1.66	1.66
Return after operating charges	+20.71	+28.03	+4.47
Historic yield	1.93	2.18	2.57
Effect on yield of charges offset against capital	1.67	1.66	0.00
Other information			
Closing NAV (\$'000)	112,135	70,190	114,027
Closing NAV percentage of total fund NAV (%)	15.40	11.62	16.03
Number of shares	5,027,793	3,567,993	6,199,992
Highest share price (UK p)	1,799.18	1,536.65	1,389.63
Lowest share price (UK p)	1,451.18	1,126.43	1,084.86

M&G North American Dividend Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 18 December 1972.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,985.92	1,547.40	1,481.26
Return before operating charges and after direct portfolio transaction costs	430.15	466.35	93.07
Operating charges	(18.05)	(27.83)	(26.93)
Return after operating charges	412.10	438.52	66.14
Distributions	(5.02)	(42.63)	(8.23)
Retained distributions	5.02	42.63	8.23
Closing NAV	2,398.02	1,985.92	1,547.40
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.54	0.87	1.88
Dilution adjustments ^[b]	(0.33)	(0.35)	(0.93)
Total direct portfolio transaction costs	0.21	0.52	0.95
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.75	+28.34	+4.47
Historic yield ^[c]	0.72	2.15	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00
Other information			
Closing NAV (\$'000)	132,216	121,867	223,821
Closing NAV percentage of total fund NAV (%)	18.16	20.18	31.47
Number of shares	4,432,123	4,671,379	9,399,789
Highest share price (UK p)	2,396.75	2,019.25	1,788.53
Lowest share price (UK p)	1,924.53	1,462.85	1,396.28

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,776.58	1,407.32	1,352.17
Return before operating charges and after direct portfolio transaction costs	384.69	421.80	84.76
Operating charges	(8.88)	(13.96)	(13.62)
Return after operating charges	375.81	407.84	71.14
Distributions	(17.50)	(38.58)	(15.99)
Closing NAV	2,134.89	1,776.58	1,407.32
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.48	0.80	1.74
Dilution adjustments ^[b]	(0.30)	(0.32)	(0.85)
Total direct portfolio transaction costs	0.18	0.48	0.89
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+21.15	+28.98	+5.26
Historic yield	1.92	2.18	2.57
Effect on yield of charges offset against capital	0.91	0.91	0.00
Other information			
Closing NAV (\$'000)	90,087	74,437	55,700
Closing NAV percentage of total fund NAV (%)	12.38	12.32	7.83
Number of shares	3,392,081	3,189,496	2,572,048
Highest share price (UK p)	2,142.42	1,822.42	1,640.34
Lowest share price (UK p)	1,722.15	1,330.79	1,275.88

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,869.47	1,445.74	1,373.57
Return before operating charges and after direct portfolio transaction costs	405.70	438.21	86.01
Operating charges	(9.35)	(14.48)	(13.84)
Return after operating charges	396.35	423.73	72.17
Distributions	(10.97)	(39.95)	(16.25)
Retained distributions	10.97	39.95	16.25
Closing NAV	2,265.82	1,869.47	1,445.74
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.51	0.83	1.77
Dilution adjustments ^[b]	(0.32)	(0.33)	(0.87)
Total direct portfolio transaction costs	0.19	0.50	0.90
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+21.20	+29.31	+5.25
Historic yield ^[c]	1.25	2.14	2.57
Effect on yield of charges offset against capital	0.01	0.91	0.00
Other information			
Closing NAV (\$'000)	169,196	149,540	108,821
Closing NAV percentage of total fund NAV (%)	23.24	24.76	15.30
Number of shares	6,002,659	6,089,177	4,891,465
Highest share price (UK p)	2,264.64	1,900.29	1,666.20
Lowest share price (UK p)	1,812.26	1,367.56	1,296.01

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	177.06	140.60	135.20
Return before operating charges and after direct portfolio transaction costs	38.30	42.08	8.49
Operating charges	(1.12)	(1.77)	(1.73)
Return after operating charges	37.18	40.31	6.76
Distributions	(1.74)	(3.85)	(1.36)
Closing NAV	212.50	177.06	140.60
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.08	0.17
Dilution adjustments ^[b]	(0.03)	(0.03)	(0.09)
Total direct portfolio transaction costs	0.02	0.05	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.16	1.16	1.16
Return after operating charges	+21.00	+28.67	+5.00
Historic yield	1.93	2.18	2.57
Effect on yield of charges offset against capital	1.16	1.16	0.00
Other information			
Closing NAV (\$'000)	254	264	205
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.03
Number of shares	96,241	113,526	94,473
Highest share price (UK p)	213.25	181.64	163.76
Lowest share price (UK p)	171.61	132.81	127.53

M&G North American Dividend Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	185.01	143.44	136.62
Return before operating charges and after direct portfolio transaction costs	40.13	43.40	8.57
Operating charges	(1.18)	(1.83)	(1.75)
Return after operating charges	38.95	41.57	6.82
Distributions	(0.88)	(3.96)	(1.37)
Retained distributions	0.88	3.96	1.37
Closing NAV	223.96	185.01	143.44
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.08	0.17
Dilution adjustments ^[b]	(0.03)	(0.03)	(0.09)
Total direct portfolio transaction costs	0.02	0.05	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.16	1.16	1.16
Return after operating charges	+21.05	+28.98	+4.99
Historic yield ^[c]	1.08	2.14	2.57
Effect on yield of charges offset against capital	0.01	1.16	0.00
Other information			
Closing NAV (\$'000)	155	190	125
Closing NAV percentage of total fund NAV (%)	0.02	0.03	0.02
Number of shares	55,741	78,113	56,226
Highest share price (UK p)	223.83	188.08	165.47
Lowest share price (UK p)	179.33	135.66	128.87

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,495.33	1,193.41	1,149.31
Return before operating charges and after direct portfolio transaction costs	323.17	355.95	72.34
Operating charges	(13.55)	(21.43)	(20.99)
Return after operating charges	309.62	334.52	51.35
Distributions	(14.71)	(32.60)	(7.25)
Closing NAV	1,790.24	1,495.33	1,193.41
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.40	0.67	1.47
Dilution adjustments ^[b]	(0.25)	(0.27)	(0.72)
Total direct portfolio transaction costs	0.15	0.40	0.75
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.71	+28.03	+4.47
Historic yield	1.93	2.18	2.57
Effect on yield of charges offset against capital	1.66	1.66	0.00
Other information			
Closing NAV (\$'000)	13,327	12,437	13,683
Closing NAV percentage of total fund NAV (%)	1.83	2.06	1.92
Number of shares	598,407	633,140	745,090
Highest share price (UK p)	1,796.57	1,534.42	1,387.73
Lowest share price (UK p)	1,449.07	1,124.79	1,083.38

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,956.98	1,524.84	1,459.65
Return before operating charges and after direct portfolio transaction costs	423.86	459.69	91.70
Operating charges	(17.77)	(27.55)	(26.51)
Return after operating charges	406.09	432.14	65.19
Distributions	(4.97)	(41.98)	(8.58)
Retained distributions	4.97	41.98	8.58
Closing NAV	2,363.07	1,956.98	1,524.84
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.53	0.87	1.85
Dilution adjustments ^[b]	(0.33)	(0.35)	(0.91)
Total direct portfolio transaction costs	0.20	0.52	0.94
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.75	+28.34	+4.47
Historic yield ^[c]	0.72	2.15	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00
Other information			
Closing NAV (\$'000)	47,985	44,502	53,058
Closing NAV percentage of total fund NAV (%)	6.59	7.37	7.46
Number of shares	1,632,322	1,731,070	2,261,211
Highest share price (UK p)	2,361.84	1,989.86	1,762.43
Lowest share price (UK p)	1,896.51	1,441.52	1,375.92

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,412.31	1,320.31	1,373.39
Return before operating charges and after direct portfolio transaction costs	213.11	146.96	(20.10)
Operating charges	(11.10)	(22.57)	(23.53)
Return after operating charges	202.01	124.39	(43.63)
Distributions	(13.00)	(32.39)	(9.45)
Closing NAV	1,601.32	1,412.31	1,320.31
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.33	0.71	1.64
Dilution adjustments ^[b]	(0.21)	(0.28)	(0.81)
Total direct portfolio transaction costs	0.12	0.43	0.83
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.66	1.62*	1.66
Return after operating charges	+14.30	+9.42	-3.18
Historic yield	2.04	2.28	2.57
Effect on yield of charges offset against capital	1.62	1.62	0.00
Other information			
Closing NAV (\$'000)	331	87	103
Closing NAV percentage of total fund NAV (%)	0.05	0.01	0.01
Number of shares	20,682	6,171	7,833
Highest share price (US ¢)	1,606.98	1,435.97	1,471.78
Lowest share price (US ¢)	1,378.83	1,165.78	1,246.17

* Due to a large creation during the period, 1.66% is a more reliable estimate of the ongoing charges.

M&G North American Dividend Fund

Financial highlights

Specific share class performance

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,458.09	1,330.80	1,373.67
Return before operating charges and after direct portfolio transaction costs	221.55	149.79	(19.45)
Operating charges	(12.59)	(22.50)	(23.42)
Return after operating charges	208.96	127.29	(42.87)
Distributions	(3.51)	(33.14)	(9.45)
Retained distributions	3.51	33.14	9.45
Closing NAV	1,667.05	1,458.09	1,330.80
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.37	0.71	1.64
Dilution adjustments ^[b]	(0.23)	(0.28)	(0.80)
Total direct portfolio transaction costs	0.14	0.43	0.84
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	1.66	1.66	1.66
Return after operating charges	+14.33	+9.56	-3.12
Historic yield ^[c]	0.74	2.26	2.57
Effect on yield of charges offset against capital	0.01	1.66	0.00
Other information			
Closing NAV (\$'000)	34,676	23,540	24,445
Closing NAV percentage of total fund NAV (%)	4.76	3.90	3.44
Number of shares	2,080,101	1,614,461	1,836,895
Highest share price (US ¢)	1,666.18	1,469.10	1,473.19
Lowest share price (US ¢)	1,423.57	1,181.07	1,247.48

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,564.34	1,417.17	1,451.95
Return before operating charges and after direct portfolio transaction costs	238.63	160.47	(21.28)
Operating charges	(7.49)	(13.30)	(13.50)
Return after operating charges	231.14	147.17	(34.78)
Distributions	(8.72)	(35.36)	(15.91)
Retained distributions	8.72	35.36	15.91
Closing NAV	1,795.48	1,564.34	1,417.17
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.41	0.76	1.72
Dilution adjustments ^[b]	(0.25)	(0.30)	(0.84)
Total direct portfolio transaction costs	0.16	0.46	0.88
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	0.91	0.91	0.91
Return after operating charges	+14.78	+10.38	-2.40
Historic yield ^[c]	1.32	2.25	2.57
Effect on yield of charges offset against capital	0.01	0.91	0.00
Other information			
Closing NAV (\$'000)	46,545	33,696	19,036
Closing NAV percentage of total fund NAV (%)	6.40	5.58	2.67
Number of shares	2,592,347	2,154,034	1,343,330
Highest share price (US ¢)	1,794.54	1,575.93	1,563.69
Lowest share price (US ¢)	1,527.79	1,261.95	1,319.86

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

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

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

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,499.33	1,391.14	1,441.29
Return before operating charges and after direct portfolio transaction costs	228.05	155.38	(21.30)
Operating charges	(7.05)	(12.72)	(13.32)
Return after operating charges	221.00	142.66	(34.62)
Distributions	(14.02)	(34.47)	(15.53)
Closing NAV	1,706.31	1,499.33	1,391.14
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.38	0.74	1.70
Dilution adjustments ^[b]	(0.24)	(0.29)	(0.83)
Total direct portfolio transaction costs	0.14	0.45	0.87
Performance and charges	%	%	%
Direct portfolio transaction costs	0.02	0.03	0.05
Operating charges	0.90	0.90	0.91
Return after operating charges	+14.74	+10.25	-2.40
Historic yield	2.05	2.28	2.57
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (\$'000)	20	18	23
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	1,171	1,171	1,671
Highest share price (US ¢)	1,712.34	1,524.30	1,551.95
Lowest share price (US ¢)	1,464.25	1,232.56	1,310.22

M&G North American Dividend Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		89,090		(18,817)
Revenue	8,506		9,242	
Expenses	(4,381)		(4,617)	
Net revenue / (expense) before taxation	4,125		4,625	
Taxation	(1,113)		(1,205)	
Net revenue / (expense) after taxation		3,012		3,420
Total return before distributions		92,102		(15,397)
Distributions		(3,412)		(6,694)
Change in net assets attributable to shareholders from investment activities		88,690		(22,091)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		604,031		711,282
Amounts received on issue of shares	149,291		84,823	
Amounts paid on cancellation of shares	(115,994)		(175,730)	
		33,297		(90,907)
Dilution adjustments		164		98
Change in net assets attributable to shareholders from investment activities (see above)		88,690		(22,091)
Retained distributions on Accumulation shares		1,733		4,735
Unclaimed distributions		0		3
Closing net assets attributable to shareholders		727,915		603,120

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	\$'000	\$'000
Assets		
Fixed assets		
Investments	724,506	603,911
Current assets		
Debtors	5,032	2,745
Cash and bank balances	4,919	745
Total assets	734,457	607,401
Liabilities		
Investment liabilities	(514)	(288)
Creditors		
Bank overdrafts	0	(201)
Distribution payable	(881)	(1,452)
Other creditors	(5,147)	(1,429)
Total liabilities	(6,542)	(3,370)
Net assets attributable to shareholders	727,915	604,031

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the accounting policies set out on page 4.

Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for reinvestment to Accumulation shares, the annual management charge, administration charge and share class hedging charge are no longer offset against capital, reducing the amount available for reinvestment. The audit, depositary, and safe custody charges continue to be offset against capital, increasing the amount available for reinvestment, whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest continue to be offset against capital, increasing the amount available for distribution, whilst restraining capital performance to an equivalent extent.

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

M&G North American Value Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund aims to achieve long-term capital growth through investment in North American securities of North American companies using a value based investment philosophy.

Investment approach

The M&G North American Value Fund employs a bottom-up stockpicking approach to identify shares of North American companies that the fund manager believes are undervalued. He seeks to identify companies that are mispriced, while trying to avoid firms that are cheap for a reason and whose share prices are unlikely to improve over time.

The fund's approach combines strict value-focused screening with rigorous qualitative analysis to ensure the fund has a consistent and disciplined value bias, without compromising on the robustness of the companies in the portfolio. Stock selection involves three stages: screening, fundamental analysis and portfolio construction. The screening process is used to find the cheapest 25% of companies in each sector. The manager then undertakes fundamental analysis of these companies to identify and exclude those with structural and financial problems that could prevent the share price recovering. The final stage is portfolio construction where the aim is to create a diversified portfolio of 60-100 companies whose true value the manager believes is being mispriced. The main driver of returns is expected to be the value style rather than any individual sector or stock.

The fund has a long-term investment horizon (stocks are typically held for three to five years) to give time for share prices to reach a valuation that reflects the true value of the business.

Risk profile

The fund invests in the shares of North American companies and is, therefore, subject to the price volatility of the North American stockmarkets and the performance of individual companies. The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on companies that are deemed to be undervalued or out of favour with the market, and whose potential value, in the fund manager's view, is yet to be reflected in the share price. These stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller companies, which can be more unpredictable and difficult to buy and sell. Diversification across industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has changed during this period. From 1 September 2016 to 30 December 2016 the risk number was 6.

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G North American Value Fund produced a positive total return (the combination of income and growth of capital) across all its share classes.^[a] Returns from the US dollar share classes were more modest than the sterling and euro share classes due to the relative strength of the US dollar.

The fund's returns in the euro and US dollar share classes were slightly ahead of a comparative index, the S&P 500 Index, while the sterling share classes were broadly in line. Over the six months, returns for the index were 18.3%, 20.5% and 11.5% in euros, sterling and US dollars, respectively. The fund's relative performance was dampened by a timing difference between the midday pricing of the fund and the close-of-day pricing of the index. The fund's pricing at midday in London meant that it missed some of the gains by the S&P 500 Index on the last day of the reporting period.

Over five years and since launch, the fund met its investment objective; it delivered a positive return, reflecting value added through stock selection and the robust recovery of US stockmarkets after the global financial crisis in 2008/9.

Investment performance

US stockmarkets continued their multi-year run of gains during the six months under review and climbed to record highs by the end of the period. The principal driver was the surprise election of Donald Trump as US president in November 2016 and expectations of higher earnings growth.

Ahead of the vote there had been considerable uncertainty about the outcome and company share prices had retreated. However, Trump's victory sparked a sudden and powerful stockmarket rally, with investor confidence fuelled by the prospect of policies such as tax cuts and infrastructure spending designed to boost the US economy.

M&G North American Value Fund

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Investment review

Investment performance (continued)

The upturn in sentiment took place against the backdrop of a steadily improving economy. The employment market remained in good shape with consistently robust job creation figures and wage growth. Consumer spending, which is one of the most important elements of the US economy, also remained strong, arguably supported by the healthy labour market.

The ongoing US economic recovery encouraged the US Federal Reserve (the Fed) to remove some of the stimulus measures put in place after the financial crisis of 2008/9. In December, the Fed raised interest rates for the first time in a year. As inflationary pressures started to increase towards the end of the period, investors anticipated that the Fed would increase borrowing costs further in the coming months.

Amid the optimism that followed the election of Donald Trump, there was a notable shift away from 'defensive' stocks, which are perceived to be resilient during times of market uncertainty, towards shares in companies that are more closely linked to economic growth. Financials was the best-performing area as investors expected the sector to benefit from rising interest rates and stronger economic activity. Similarly, the industrials sector, which includes engineering and transport firms, performed well. Information technology stocks rallied too, in particular, semiconductor and hardware firms.

On the other hand, the prospect of higher interest rates dampened demand for stocks delivering steady income payments, so-called 'bond proxies', which have been in favour for the past few years. Consumer staples, healthcare and telecommunication services companies were notable underperformers. Energy stocks were lacklustre too.

Another notable feature of the period was the style shift towards 'value'. Value stocks, which refer to cheap, out-of-favour companies, outperformed over the six months, which provided a tailwind for the fund's value-focused approach. Value's recovery in 2016 after a sustained period of underperformance was welcome. However, we are pleased that the fund has been able to keep pace with the broader market in the past few years when value underperformed.

Turning to fund performance over the review period, the largest contributor to relative returns was the above-index position in financials as the sector made significant gains. The holdings in financial groups Goldman Sachs, JPMorgan Chase, Citigroup and PNC Financial Services were among the leading contributors to performance as their share prices advanced on the prospect of higher interest rates, which should boost their profitability, as well as potential regulatory reform of the banking sector.

Stock selection in the industrials sector was positive too. The holding in Spirit AeroSystems, a manufacturer of aircraft parts, added value as the company's share price rose on better-than-expected results and higher revenue forecasts. Increased demand for parts from Airbus, one of the firm's biggest customers, boosted profits.

Oshkosh, a manufacturer of speciality vehicles, was a notable contributor too. As a supplier of vehicles to the military, Oshkosh's share price advanced amid expectations of increased defence spending under President Trump.

Meanwhile, ManpowerGroup, a recruitment firm with businesses in the US and Europe, also rallied. We purchased the stock when the share price fell after the UK voted in June 2016 to leave the European Union. Since then the shares have rebounded, buoyed by optimism about the economic outlook in both the US and Europe.

Elsewhere, the holding in Western Digital, a hard disk manufacturer, also added value after reporting robust results. Investors are increasingly optimistic about Western Digital's prospects following its recent acquisition of SanDisk, a manufacturer of memory storage products.

On the other hand, stock selection in the consumer discretionary sector cost some performance, with retailer Target among the leading detractors. Target's share price fell on the back of a decline in quarterly earnings, following a disappointing holiday season, and a weak outlook for sales.

The holding in media company News Corporation also weighed on performance as quarterly profits declined. The owner of newspapers including the Wall Street Journal is facing a decrease in print advertising income.

In the energy sector, the holdings in Hess and Occidental Petroleum, two oil & gas exploration firms, detracted as they suffered from depressed oil prices. Both firms are looking to increase production by investing in new projects.

Meanwhile, not owning shares in large index constituent Apple was the biggest single detractor from performance. Shares in the technology firm climbed to the highest ever level on better-than-expected quarterly earnings and record iPhone sales, stemming the decline seen in recent years.

Investment activities

During the review period, we added several new holdings to the portfolio from a range of different sectors. At the end of the period, the fund held 85 stocks.

In the consumer staples sector, we started a position in Coca-Cola European Partners, which was formed in 2016 when three European Coke bottlers merged. In our view, the shares trade on an attractive valuation, and once the restructuring is complete, the company's cashflows should benefit from cost savings, synergies and reduced capital expenditure.

We also identified two attractive opportunities in the financial sector: Affiliated Managers, an asset management company, and Voya Financial, a provider of investments and life insurance. Despite concerns about declining inflows for active investment managers, Affiliated Managers is well positioned and has consistently generated inflows greater than the rest of the market. Meanwhile, we believe Voya has a robust balance sheet and should benefit from rising interest rates.

Consumer discretionary stock Extended Stay America was another newcomer. The operator of extended stay hotels is beginning to realise value by selling and franchising a number of its hotels. Moreover, following a period of heavy investment in the business, cashflows are expected to increase.

In contrast, we closed the position in Ingevity, a speciality chemicals manufacturer, which was spun out in 2016 from current holding WestRock, a paper and packaging business. The shares have subsequently risen and were sold on valuation grounds.

M&G North American Value Fund

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Investment review

Investment activities (continued)

The stake in People's United Bank, a diversified financial company, was sold. The stock had performed relatively well and we considered Voya Financial to have more attractive risk/reward characteristics.

Ingram Micro, a distributor of computer and technology products, also left the portfolio as it was taken over during the period. We also sold the shares in pharmaceutical firm Shire that we received when it acquired Baxalta, which was held in the fund. The UK-listed shares received no longer fit the fund's mandate.

Outlook

The return to favour of the 'value' style during the period under review was extremely pleasing as value has faced significant headwinds in recent years. What was also encouraging was that the fund 'captured the value tailwind' without taking large positions in the most distressed sectors. Even after value's strong recent performance, we believe the outlook for a selective value approach remains positive.

The outperformance in 2016 was modest compared to the extent of value's underperformance since 2007. Therefore, in our opinion, the 'value' style still has further to go before it has reversed its notable underperformance in recent years.

Underpinning this view is the wide divergence in valuations between the most expensive part of the market and the cheapest – it remains almost as wide as it has ever been. We believe the potential rewards from investing in value stocks could be significant if this valuation gap continues to narrow. The ongoing economic recovery in the US and improvement in company earnings should also be supportive of a value-based approach.

While we are optimistic about value's long-term prospects, we recognise that there may be some challenges along the way. Given the strength of recent market moves and the shift to value stocks, value's outperformance will not necessarily continue in a straight line. This has been evidenced so far in 2017 as value has paused for breath. There are also plenty of political and economic uncertainties that could unsettle investors, not least the lack of clarity surrounding President Trump's policies. In this environment, we believe a selective value approach is essential.

We will continue to apply our disciplined stockpicking approach to identify companies that are being mispriced by the market, while avoiding stocks with material problems that could prevent the share price from recovering. We believe the fund is well placed to be able to capture the value opportunities that exist in the US market, while being well diversified across sectors amid an uncertain environment.

Daniel White
Fund manager

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

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

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

Investments

Portfolio statement

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Oil & gas producers	48,365	7.78	7.63
109,253 Chevron	12,210	1.96	
1,140,583 Cobalt International Energy	867	0.14	
218,545 ConocoPhillips	10,352	1.67	
154,393 Hess	8,137	1.31	
923,112 Kosmos Energy	5,539	0.89	
104,727 Occidental Petroleum	6,856	1.10	
140,684 Suncor Energy	4,404	0.71	
Oil equipment, services & distribution	5,539	0.89	0.53
54,852 Helmerich & Payne	3,762	0.60	
234,808 McDermott International	1,777	0.29	
Chemicals	0	0.00	0.60
Forestry & paper	2,919	0.47	0.67
75,463 Domtar	2,919	0.47	
Industrial metals & Mining	0	0.00	0.00 [a]
Mining	7,445	1.20	1.03
219,151 Newmont Mining	7,445	1.20	
Construction & materials	3,532	0.57	1.03
33,771 Eagle Materials	3,532	0.57	
Aerospace & defence	6,396	1.03	0.86
103,508 Spirit AeroSystems	6,396	1.03	
General industrials	7,351	1.18	1.70 [a]
13,869 Parker Hannifin	2,165	0.35	
96,512 WestRock	5,186	0.83	
Electronic & electrical equipment	12,219	1.97	2.19 [a]
274,326 AVX	4,370	0.70	
357,137 Celestica	4,833	0.78	
186,776 Vishay Intertechnology	3,016	0.49	
Industrial engineering	10,624	1.70	2.52 [a]
12,619 Cummins	1,892	0.30	
61,340 Oshkosh	4,172	0.67	
131,108 SPX FLOW	4,560	0.73	
Industrial transportation	8,711	1.40	1.36
191,905 Euronav	1,554	0.25	
36,824 FedEx	7,157	1.15	
Support services	16,406	2.64	1.96 [a]
94,523 Conduent	1,568	0.25	
64,226 ManpowerGroup	6,282	1.01	
1,151,511 Xerox	8,556	1.38	
Automobiles & parts	10,752	1.73	1.75 [a]
160,399 General Motors	5,978	0.96	
109,136 Magna International	4,774	0.77	
Beverages	19,184	3.09	1.47 [a]
256,372 Coca-Cola European Partners	8,970	1.44	
102,631 Molson Coors Brewing	10,214	1.65	
Food producers	10,239	1.65	2.63
30,773 ConAgra Foods	1,258	0.20	
98,228 Lamb Weston Holdings	3,874	0.63	
81,898 Tyson Foods	5,107	0.82	
Household goods & home construction	6,421	1.03	0.97 [a]
118,377 Energizer	6,421	1.03	
Leisure goods	0	0.00	0.00 [a]

M&G North American Value Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Personal goods	24,148	3.88	3.39 ^[a]
161,800 Coach	6,263	1.01	
142,486 Columbia Sportswear	8,079	1.30	
73,954 Kimberly-Clark	9,806	1.57	
Tobacco	10,938	1.76	2.13
146,686 Altria Group	10,938	1.76	
Healthcare equipment & services	23,857	3.84	4.15 ^[a]
67,858 Anthem	11,189	1.80	
120,492 Livanova	6,012	0.97	
86,728 Owens & Minor	3,136	0.50	
27,379 Stryker	3,520	0.57	
Pharmaceuticals & biotechnology	69,168	11.13	11.89
233,632 Abbott Laboratories	10,618	1.71	
82,746 AbbVie	5,148	0.83	
79,544 Eli Lilly	6,607	1.06	
143,559 Johnson & Johnson	17,570	2.83	
170,438 Merck	11,222	1.80	
525,174 Pfizer	18,003	2.90	
Food & drug retailers	5,353	0.86	0.92
84,934 Weis Markets	5,353	0.86	
General retailers	16,732	2.69	2.95
89,169 Best Buy	4,115	0.66	
39,521 Dillard's	2,223	0.36	
155,300 Target	10,394	1.67	
Media	16,012	2.58	2.89
312,898 Comcast	11,743	1.89	
326,865 News	4,269	0.69	
Travel & leisure	14,755	2.37	1.34
164,221 Carnival	9,201	1.48	
321,188 Extended Stay America	5,554	0.89	
Fixed line telecommunications	17,816	2.87	2.79
295,414 AT&T	12,348	1.99	
222,270 Centurylink	5,468	0.88	
Electricity	10,485	1.69	1.48
286,800 Exelon	10,485	1.69	
Banks	54,711	8.80	9.29
148,749 Capitol Federal Financial	2,271	0.36	
239,849 Citigroup	14,396	2.32	
194,365 JPMorgan Chase	17,576	2.83	
70,049 PNC Financial Services	8,975	1.44	
97,229 Washington Federal	3,345	0.54	
140,338 Wells Fargo	8,148	1.31	
Non-life insurance	19,830	3.19	3.48 ^[a]
137,462 American International Group	8,798	1.42	
114,831 Loews	5,405	0.87	
115,007 The Hartford Financial Services Group	5,627	0.90	
Life insurance	7,133	1.15	1.38
135,457 MetLife	7,133	1.15	
Financial services	28,406	4.56	4.00
29,581 Affiliated Managers	4,998	0.80	
98,539 Bank of New York Mellon	4,641	0.75	
34,122 Goldman Sachs Group	8,506	1.37	
290,438 KCG	4,130	0.66	
147,807 Voya Financial	6,131	0.98	

Portfolio statement (continued)

as at Holding	28.02.17 \$'000	28.02.17 %	31.08.16 %
Software & computer services	42,951	6.91	6.96
27,657 Alphabet	23,494	3.78	
302,974 Microsoft	19,457	3.13	
Technology hardware & equipment	50,559	8.13	8.01 ^[a]
232,182 Cisco Systems	7,954	1.28	
138,391 Corning	3,825	0.62	
54,552 Harris	6,075	0.98	
339,815 Hewlett-Packard Enterprise	7,578	1.22	
84,929 Intel	3,100	0.50	
96,280 Mellanox Technologies	4,747	0.76	
257,704 Micron Technology	6,121	0.98	
59,182 Qorvo	4,002	0.64	
94,042 Western Digital	7,157	1.15	
Portfolio of investments	588,957	94.74	95.95
'AAA' rated money market funds ^[b]	24,819	3.99	4.01
24,819,000 Northern Trust Global Fund - US dollar	24,819	3.99	
Total portfolio	613,776	98.73	99.96
Net other assets / (liabilities)	7,925	1.27	0.04
Net assets attributable to shareholders	621,701	100.00	100.00

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

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

	\$'000
Largest purchases	
Coca-Cola European Partners	8,887
Pfizer	5,362
Target	5,295
Extended Stay America	5,026
Affiliated Managers	4,911
Xerox	4,783
Voya Financial	4,594
Mellanox Technologies	4,368
Kimberly-Clark	4,121
Molson Coors Brewing	3,586
Other purchases	52,994
Total purchases	103,927
Largest sales	
ConAgra Foods	5,778
Bank of New York Mellon	4,455
Altria Group	3,899
Ingevity Corporation	3,776
Best Buy	3,672
Goldman Sachs Group	3,568
Eagle Materials	3,381
Huntington Bancshares	2,669
Stryker	2,605
Kimberly-Clark	2,451
Other sales	51,812
Total sales	88,066

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

M&G North American Value Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

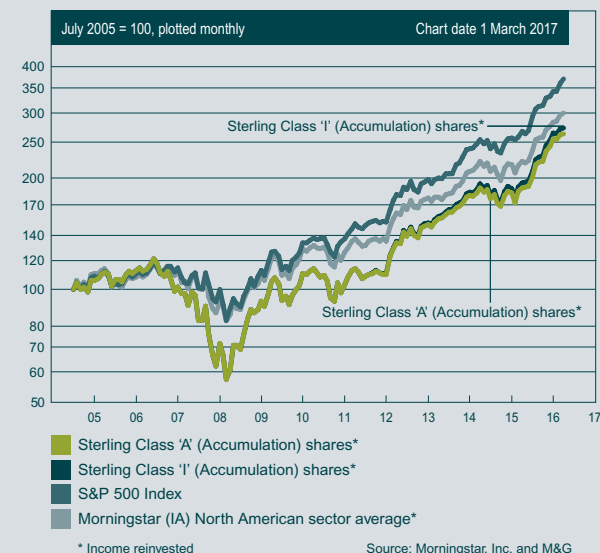
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (1), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	28.02.17 \$'000	31.08.16 \$'000	31.08.15 \$'000
Fund net asset value (NAV)	621,701	531,205	511,373

Performance since launch

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



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

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

	Six months	Three years	Five years	Since launch
	01.09.16 % [a]	03.03.14 % p.a.	01.03.12 % p.a.	% p.a.
Euro [b]				
Class 'A'	+18.4	+19.0	+18.0	+6.5 [c]
Class 'C'	+18.9	+19.9	+18.9	+7.3 [c]
Sterling [d]				
Class 'A'	+20.3	+20.5	+18.5	+8.6 [c]
Class 'I'	+20.8	+21.4	n/a	+22.2 [e]
Class 'R'	+20.6	+21.1	n/a	+21.8 [e]
Class 'X'	+20.3	+20.5	+18.5	+8.6 [c]
US dollar [b]				
Class 'A'	+11.9	+8.8	+12.6	+3.9 [f]
Class 'C'	+12.3	+9.7	+13.4	+4.7 [f]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 1 July 2005, the launch date of the fund.

[d] Price to price with income reinvested.

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

[f] 9 March 2007, the launch date of the share class.

M&G North American Value Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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				
	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.02	0.03	0.05	0.03
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.02	0.03	0.05	0.03
Dilution adjustments ^[c]	(0.02)	(0.02)	(0.04)	(0.02)
Total direct portfolio transaction costs	0.00	0.01	0.01	0.01
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.04	0.03	0.04	0.04

^[a] Average of first three columns.

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

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

M&G North American Value Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 1 July 2005.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	1,766.85	1,581.08	1,419.44
Return before operating charges and after direct portfolio transaction costs	330.60	213.13	188.53
Operating charges	(15.74)	(27.36)	(26.89)
Return after operating charges	314.86	185.77	161.64
Distributions	n/a	(5.32)	(4.35)
Retained distributions	n/a	5.32	4.35
Closing NAV	2,081.71	1,766.85	1,581.08
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.21	0.50	0.80
Dilution adjustments ^[b]	(0.21)	(0.33)	(0.58)
Total direct portfolio transaction costs	0.00	0.17	0.22
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+17.82	+11.75	+11.39
Historic yield	0.26	0.30	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	45,846	33,375	25,199
Closing NAV percentage of total fund NAV (%)	7.37	6.28	4.93
Number of shares	2,077,394	1,695,330	1,413,054
Highest share price (Euro ¢)	2,109.91	1,782.00	1,819.05
Lowest share price (Euro ¢)	1,705.61	1,410.00	1,329.14

Euro Class 'C' Accumulation share performance

The share class was launched on 1 July 2005.

	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Change in NAV per share			
Opening NAV	1,922.55	1,707.45	1,521.54
Return before operating charges and after direct portfolio transaction costs	360.41	231.33	201.78
Operating charges	(9.38)	(16.23)	(15.87)
Return after operating charges	351.03	215.10	185.91
Distributions	n/a	(19.13)	(17.90)
Retained distributions	n/a	19.13	17.90
Closing NAV	2,273.58	1,922.55	1,707.45
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.22	0.55	0.86
Dilution adjustments ^[b]	(0.22)	(0.36)	(0.63)
Total direct portfolio transaction costs	0.00	0.19	0.23
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	0.91	0.91	0.91
Return after operating charges	+18.26	+12.60	+12.22
Historic yield	0.84	0.99	1.05
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	43,964	41,167	9,681
Closing NAV percentage of total fund NAV (%)	7.07	7.75	1.89
Number of shares	1,823,960	1,921,782	502,625
Highest share price (Euro ¢)	2,304.10	1,929.00	1,958.88
Lowest share price (Euro ¢)	1,856.49	1,527.00	1,426.12

Sterling Class 'A' Income share performance

The share class was launched on 1 July 2005.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	107.43	83.33	81.35
Return before operating charges and after direct portfolio transaction costs	20.72	25.94	3.66
Operating charges	(0.97)	(1.52)	(1.45)
Return after operating charges	19.75	24.42	2.21
Distributions	n/a	(0.32)	(0.23)
Closing NAV	127.18	107.43	83.33
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[b]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+18.38	+29.31	+2.72
Historic yield ^[c]	1.44	0.30	0.27
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	258,413	244,575	269,652
Closing NAV percentage of total fund NAV (%)	41.57	46.04	52.73
Number of shares	163,340,030	173,305,625	210,289,562
Highest share price (UK p)	127.74	109.10	94.58
Lowest share price (UK p)	103.86	79.71	76.39

M&G North American Value Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 July 2005.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	110.44	85.41	83.14
Return before operating charges and after direct portfolio transaction costs	21.30	26.58	3.75
Operating charges	(1.00)	(1.55)	(1.48)
Return after operating charges	20.30	25.03	2.27
Distributions	n/a	(0.33)	(0.24)
Retained distributions	n/a	0.33	0.24
Closing NAV	130.74	110.44	85.41
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[b]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+18.38	+29.31	+2.73
Historic yield	0.25	0.30	0.28
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	3,325	2,907	4,981
Closing NAV percentage of total fund NAV (%)	0.54	0.55	0.98
Number of shares	2,044,129	2,003,966	3,790,577
Highest share price (UK p)	131.33	111.83	96.67
Lowest share price (UK p)	106.77	81.69	78.14

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	2,008.50	1,557.26	1,520.67
Return before operating charges and after direct portfolio transaction costs	387.97	487.04	68.10
Operating charges	(9.99)	(15.63)	(14.98)
Return after operating charges	377.98	471.41	53.12
Distributions	n/a	(20.17)	(16.53)
Closing NAV	2,386.48	2,008.50	1,557.26
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.24	0.53	0.81
Dilution adjustments ^[b]	(0.24)	(0.35)	(0.59)
Total direct portfolio transaction costs	0.00	0.18	0.22
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	0.91	0.91	0.91
Return after operating charges	+18.82	+30.27	+3.49
Historic yield ^[c]	1.49	1.01	1.06
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (\$'000)	29,824	23,155	20,057
Closing NAV percentage of total fund NAV (%)	4.80	4.36	3.92
Number of shares	1,004,585	877,584	836,977
Highest share price (UK p)	2,396.17	2,053.47	1,776.26
Lowest share price (UK p)	1,942.26	1,494.46	1,429.65

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	2,094.58	1,607.66	1,553.47
Return before operating charges and after direct portfolio transaction costs	404.78	503.04	69.49
Operating charges	(10.53)	(16.12)	(15.30)
Return after operating charges	394.25	486.92	54.19
Distributions	n/a	(20.81)	(16.90)
Retained distributions	n/a	20.81	16.90
Closing NAV	2,488.83	2,094.58	1,607.66
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.25	0.54	0.83
Dilution adjustments ^[b]	(0.25)	(0.36)	(0.60)
Total direct portfolio transaction costs	0.00	0.18	0.23
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	0.92	0.91	0.91
Return after operating charges	+18.82	+30.29	+3.49
Historic yield	0.83	1.00	1.05
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	41,452	19,351	18,504
Closing NAV percentage of total fund NAV (%)	6.67	3.64	3.62
Number of shares	1,338,860	703,278	748,003
Highest share price (UK p)	2,498.94	2,120.18	1,814.49
Lowest share price (UK p)	2,025.56	1,543.02	1,460.44

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	200.78	155.69	152.01
Return before operating charges and after direct portfolio transaction costs	38.75	48.63	6.83
Operating charges	(1.27)	(1.99)	(1.90)
Return after operating charges	37.48	46.64	4.93
Distributions	n/a	(1.55)	(1.25)
Closing NAV	238.26	200.78	155.69
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.05	0.08
Dilution adjustments ^[b]	(0.02)	(0.03)	(0.06)
Total direct portfolio transaction costs	0.00	0.02	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.16	1.16	1.16
Return after operating charges	+18.67	+29.96	+3.24
Historic yield ^[c]	1.47	0.77	0.80
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (\$'000)	207	225	134
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.03
Number of shares	69,876	85,398	55,587
Highest share price (UK p)	239.24	204.81	177.29
Lowest share price (UK p)	194.14	149.25	142.87

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Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	207.20	159.43	154.45
Return before operating charges and after direct portfolio transaction costs	40.00	49.80	6.89
Operating charges	(1.31)	(2.03)	(1.91)
Return after operating charges	38.69	47.77	4.98
Distributions	n/a	(1.58)	(1.25)
Retained distributions	n/a	1.58	1.25
Closing NAV	245.89	207.20	159.43
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.05	0.08
Dilution adjustments ^[b]	(0.02)	(0.04)	(0.06)
Total direct portfolio transaction costs	0.00	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.16	1.16	1.16
Return after operating charges	+18.67	+29.96	+3.22
Historic yield	0.64	0.77	0.78
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	324	308	317
Closing NAV percentage of total fund NAV (%)	0.05	0.06	0.06
Number of shares	106,035	113,120	129,262
Highest share price (UK p)	246.90	209.75	180.12
Lowest share price (UK p)	200.36	152.85	145.16

Sterling Class 'X' Income share performance

The share class was launched on 1 July 2005.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	107.46	83.35	81.37
Return before operating charges and after direct portfolio transaction costs	20.72	25.95	3.66
Operating charges	(0.97)	(1.52)	(1.45)
Return after operating charges	19.75	24.43	2.21
Distributions	n/a	(0.32)	(0.23)
Closing NAV	127.21	107.46	83.35
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[b]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+18.38	+29.31	+2.72
Historic yield ^[c]	1.44	0.30	0.28
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (\$'000)	2,777	2,494	2,627
Closing NAV percentage of total fund NAV (%)	0.45	0.47	0.51
Number of shares	1,755,101	1,766,613	2,047,433
Highest share price (UK p)	127.78	109.14	94.61
Lowest share price (UK p)	103.89	79.73	76.44

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 July 2005.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	110.66	85.58	83.31
Return before operating charges and after direct portfolio transaction costs	21.34	26.64	3.75
Operating charges	(1.00)	(1.56)	(1.48)
Return after operating charges	20.34	25.08	2.27
Distributions	n/a	(0.33)	(0.23)
Retained distributions	n/a	0.33	0.23
Closing NAV	131.00	110.66	85.58
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[b]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.66	1.66	1.66
Return after operating charges	+18.38	+29.31	+2.72
Historic yield	0.25	0.30	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	136,919	130,588	126,698
Closing NAV percentage of total fund NAV (%)	22.02	24.58	24.78
Number of shares	84,016,816	89,831,538	96,213,165
Highest share price (UK p)	131.59	112.05	96.86
Lowest share price (UK p)	106.98	81.86	78.25

US dollar Class 'A' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,315.48	1,191.70	1,250.99
Return before operating charges and after direct portfolio transaction costs	170.49	144.10	(38.48)
Operating charges	(11.25)	(20.32)	(20.81)
Return after operating charges	159.24	123.78	(59.29)
Distributions	n/a	(3.91)	(3.26)
Retained distributions	n/a	3.91	3.26
Closing NAV	1,474.72	1,315.48	1,191.70
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.15	0.37	0.62
Dilution adjustments ^[b]	(0.15)	(0.25)	(0.45)
Total direct portfolio transaction costs	0.00	0.12	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	1.65	1.66	1.66
Return after operating charges	+12.11	+10.39	-4.74
Historic yield	0.27	0.30	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	19,279	15,389	18,518
Closing NAV percentage of total fund NAV (%)	3.10	2.90	3.62
Number of shares	1,307,307	1,169,867	1,553,928
Highest share price (US ¢)	1,480.18	1,319.00	1,298.09
Lowest share price (US ¢)	1,278.24	1,068.00	1,131.97

M&G North American Value Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 9 March 2007.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,412.87	1,270.30	1,323.57
Return before operating charges and after direct portfolio transaction costs	183.67	154.49	(41.20)
Operating charges	(6.74)	(11.92)	(12.07)
Return after operating charges	176.93	142.57	(53.27)
Distributions	n/a	(14.04)	(13.33)
Retained distributions	n/a	14.04	13.33
Closing NAV	1,589.80	1,412.87	1,270.30
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.16	0.40	0.65
Dilution adjustments ^[b]	(0.16)	(0.27)	(0.48)
Total direct portfolio transaction costs	0.00	0.13	0.17
Performance and charges	%	%	%
Direct portfolio transaction costs	0.00	0.01	0.01
Operating charges	0.92	0.91	0.91
Return after operating charges	+12.52	+11.22	-4.02
Historic yield	0.89	0.99	0.90
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	39,371	17,671	15,005
Closing NAV percentage of total fund NAV (%)	6.33	3.33	2.93
Number of shares	2,476,452	1,250,746	1,181,194
Highest share price (US ¢)	1,595.49	1,416.00	1,333.70
Lowest share price (US ¢)	1,374.84	1,142.00	1,031.60

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

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

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

M&G North American Value Fund

Financial statements and notes

Financial statements

Statement of total return				
for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		63,582		(16,348)
Revenue	6,037		5,633	
Expenses	(4,152)		(3,775)	
Net revenue / (expense) before taxation	1,885		1,858	
Taxation	(866)		(830)	
Net revenue / (expense) after taxation		1,019		1,028
Total return before equalisation		64,601		(15,320)
Equalisation		118		53
Change in net assets attributable to shareholders from investment activities		64,719		(15,267)

Statement of change in net assets attributable to shareholders				
for the six months to 28 and 29 February	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders				
		531,205		511,373
Amounts received on issue of shares	107,568		73,160	
Amounts paid on cancellation of shares	(81,887)		(99,692)	
		25,681		(26,532)
Dilution adjustments		96		93
Change in net assets attributable to shareholders from investment activities (see above)		64,719		(15,267)
Closing net assets attributable to shareholders		621,701		469,667

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet			
as at	28 February 2017	31 August 2016	
	\$'000	\$'000	
Assets			
Fixed assets			
Investments	613,776	530,999	
Current assets			
Debtors	6,585	933	
Cash and bank balances	8,656	791	
Total assets	629,017	532,723	
Liabilities			
Creditors			
Distribution payable	0	(979)	
Other creditors	(7,316)	(539)	
Total liabilities	(7,316)	(1,518)	
Net assets attributable to shareholders	621,701	531,205	

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

M&G North American Value Fund

Financial statements and notes

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M&G Pan European Select Fund

Authorised Corporate Director's Report

Investment objective and policy

The Fund invests wholly or mainly in European (including UK) companies. The Fund may also invest in companies outside Europe but only when these companies derive the majority of their income from European activity. The objective is to maximise long term total return (the combination of income and growth of capital). The Fund may at any time be concentrated in a limited number of securities.

Investment approach

The M&G Pan European Select Fund is a concentrated portfolio of quality European companies, with advantageous characteristics, or 'economic moats', to protect their profitability and an element of change helping to drive their value. Importantly, the fund manager invests in businesses where short-term 'disruptions' have provided a clear valuation opportunity.

The fund manager believes that a focus on both quality and value offers a powerful combination, providing the long-term growth in returns that quality businesses can deliver, as well as the potential boost to a company's share price when a 'disruption' has been resolved and the shares revert to a more appropriate level. Key to his approach is remaining patient and taking a long-term view, both in the entry and exit points of the fund's holdings.

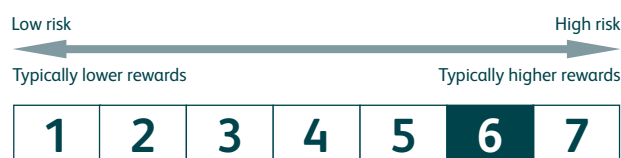
The fund manager keeps the portfolio focused, generally holding between 25 and 35 well-understood stocks, which broadly fall into one of two 'buckets' – 'stable growth' and 'opportunities'. Stable growth companies are those that have a proven track record of producing stable earnings, tending to have very strong market positions or powerful brands, for example. Opportunities companies sit in out-of-favour corners of the market where change is not appreciated or risk is overstated. These tend to be less predictable, but with significant growth potential.

Risk profile

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

The fund's focus is on quality businesses where an element of change is helping to drive their value, and these stocks could potentially experience a degree of illiquidity in times of market distress. The fund is a concentrated portfolio of between 25 and 35 holdings, but is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Diversification across countries, industries and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 March 2017, for the six months ended 28 February 2017

Performance against objective

Between 1 September 2016 (the start of the review period) and 1 March 2017, the M&G Pan European Select Fund delivered positive total returns (the combination of income and growth of capital) across its euro and sterling share classes, while its US dollar share classes declined, reflecting currency moves. All share classes finished behind a comparable index, the MSCI Europe Index. Over the six months, returns from the index were 12.6%, 10.5% and 4.3% in sterling, euros and US dollars, respectively.

Over five years and since launch, the fund has met its objective of delivering positive total returns.^[a]

Investment performance

European stockmarkets delivered positive returns for the period under review, with encouraging prospects for economic growth and inflation, as well as a changing political landscape, helping to drive investor sentiment.

For most of the period, the market mood was arguably dominated by the run-up to, and aftermath of, the US presidential election. Following swirling speculation over what a Donald Trump victory might mean, his unexpected win sparked a significant, if not surprising, shift in investor sentiment, as the potential for reduced taxes and regulation, as well as a boost to spending on infrastructure, cheered investors. The mood was further enlivened by relatively robust economic data and good corporate results, all of which made investors more willing to take on risk. With that in mind, US stockmarkets hit record highs during the review period, and took other markets, including Europe, along for the ride.

The materials and financial sectors were particular beneficiaries of this improved mood, with both sectors having previously been out of favour. As a result, our below-index positions in these sectors weighed on relative returns, as did stock selection within them. Our stockpicking in the industrials and healthcare sectors also dragged on performance. At the other end of the spectrum, sectors considered to be more

M&G Pan European Select Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

'defensive' (that is, those that have relatively predictable and stable earnings regardless of the state of the economy) underperformed for the period, as investors became more willing to take on risk. These included real estate, utilities, telecommunications and consumer staples, all of which lagged against the wider market – our below-index positions in these sectors proved supportive for relative performance.

At a stock level, the largest detractor was Denmark-listed multinational pharmaceutical company Novo Nordisk, which experienced share price weakness for much of the review period. This was in light of pricing pressure in the US for some of its products, exacerbated by comments from President Donald Trump concerning his determination to lower drug prices. We took advantage of the more attractive valuations to add to our position in the company, believing in the long-term sustainability of the business, despite the short-term issues affecting its share price.

Within industrials, German food processing technology and component maker GEA detracted as well. GEA's shares suffered after the company reduced its guidance for the year, reflecting a 'lumpier'-than-expected order book in the dairy industry; investors were particularly unnerved by poor communication, as the company had previously confirmed a positive outlook.

Other detractors included British building supplies retailer Travis Perkins, fast fashion retailer H&M and branded jewellery creator Pandora. Travis Perkins' share price fell sharply following the UK's referendum decision to leave the European Union, and then remained weak through most of the review period. This was a similar case for many domestically focused retailers in the UK. H&M reported a drop in its annual net profits, largely due to higher purchasing costs from a strengthening US dollar. It also had to discount some of its product lines due to lower-than-expected sales, partly because customers held off buying new clothes in the spring amid colder weather. Pandora, meanwhile, reported slower revenue growth than anticipated for 2017, as well as squeezed margins in light of higher commodity prices; investors were disappointed.

On the upside, shares in Anglo-Dutch consumer goods giant Unilever had been suppressed for some time, providing the opportunity for us to invest in the company in February. Unilever's share price subsequently rose sharply on news that competitor Kraft Heinz was seeking a £115 billion bid for the company. Unilever rejected the bid, while upgrading its profit expectations for the year, and announcing a "comprehensive review of options" to improve value for shareholders.

In the energy sector, our holding in Statoil performed well, benefiting from improvement in the oil price, while some of our retailer positions bucked the general negative trend in the sector and delivered good returns. These included premium clothing retailer HUGO BOSS, which saw its share price rise strongly on reports that an activist shareholder had taken a stake in the company, and retailer WH Smith. WH Smith reported better-than-expected sales over the Christmas period, with overall profit growth for the full year expected to be ahead of previous forecasts. That growth was driven by the company's travel concessions in airports and train stations, which is where we have always seen the real value of the business.

Elsewhere, Dutch financial institution ING Groep buoyed returns as well, aided by increasing positive investor sentiment in the financial sector. ING also reported a stronger-than-expected rise in quarterly profits, driven by growth in interest income, improvement in margins and a positive contribution from new markets, particularly through online banking.

Investment activities

We run a concentrated portfolio of between 25 and 35 holdings, maintaining a watchlist of around 120 quality 'moated' companies that we would like to own when the timing and price are right (moated companies are those where we feel the business model is well-protected from competition). We monitor our watchlist closely, waiting patiently for short-term issues, or 'disruptions', to create buying opportunities.

During the review period, four such opportunities presented themselves. The first was Topdanmark, Denmark's second-largest insurance company. We see this as a high-quality business where short-term pricing pressure in Denmark created the opportunity to buy the stock at an attractive valuation.

We added a position in Linde, the world's second-largest supplier of industrial gases. Following a series of beneficial acquisitions, we believe Linde possesses some of the best assets in the industry, with the potential to improve the profitability of those assets. The company is engaged in highly visible long-term projects in captive markets, generates a lot of cash and is very profitable.

We bought shares in Akzo Nobel, a Dutch-listed manufacturer of decorative paints, performance coatings and speciality chemicals. We believe this is a quality company with a strong brand, excellent distribution networks and, as the largest coating and paint company globally, scale advantages that make it difficult to compete with. The company is also top-rated in terms of environmental, social and governance (ESG) factors, being an innovation leader in organic and renewable sources, with a strong focus on minimising its carbon footprint.

Our other new purchase was Unilever, a high-quality producer of household and beauty products as well as food and beverages. Unilever is very long term, making strategic acquisitions over time to grow and diversify its business, and is stakeholder, not just shareholder, focused. Its shares weakened as investors turned from consumer staples companies, in favour of more growth oriented stocks, providing our entry point. The company is now, in light of the attempted (and subsequently called-off) takeover bid by rival Kraft Heinz, looking at shorter term optimisations in the business, and we believe we will see ongoing improvement in cashflows and profitability. We have watched the stock for some time, waiting for the right entry point, and believe that that patience has now paid off.

Conversely, we exited five of the fund's holdings during the period. Danish medical equipment maker Ambu and German sportswear manufacturer adidas both left the portfolio on valuation grounds. We closed the position in UK-listed banking group Barclays due to uncertainty in the medium-term UK housing market raising some concerns, as Barclays has been aggressively building its mortgage book. We exited cigarette maker British American Tobacco, in light of tougher regulations, new technologies – including 'vaping' – leading to increased competition and uncertainty, and a belief that tobacco

M&G Pan European Select Fund

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Investment review

Investment activities (continued)

companies were increasingly unlikely to produce the same level of returns as they have in the past. Finally, we sold our shares in multinational publishing and education business Pearson, having lost faith in the investment case.

Outlook

Over the course of the review period we witnessed a shift in investor sentiment. In risk-averse markets, investors had preferred the perceived safety of more defensive parts of the market – most notably within the consumer staples sector – and were seemingly willing to pay any price to invest in these companies.

With the turn in mood, accelerated by the election of Donald Trump, investors have returned to looking at company fundamentals, and a focus on 'value' appears to be coming into favour. In this environment, there could be an expectation that a quality-biased portfolio will struggle, but we do not believe that our quality focus will preclude the fund from taking advantage of the rotation into value. This is because 'quality' is by no means limited to the defensive, stable, 'safe' stocks that previously attracted so much investor attention. We identify quality across sectors, investing in companies with a proven track record of value creation over the business cycle, irrespective of the sector in which they reside.

Given the nature of the businesses in which we invest, and the balanced construction of our portfolio, we believe the fund is well-positioned to take advantage of the current shift in investor sentiment. As long-term investors, we remain focused on the long-term value of the businesses in which we invest, and continue to be optimistic about their prospects.

John William Olsen
Fund manager

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

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

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

Investments

Portfolio statement			
as at Holding	28.02.17 €'000	28.02.17 %	31.08.16 %
Oil & gas producers	11,800	4.01	3.38
705,656 Statoil	11,800	4.01	
Chemicals	22,380	7.60	3.73
135,303 Akzo Nobel	8,511	2.89	
44,815 Bayer	4,654	1.58	
60,588 Linde	9,215	3.13	
Construction & materials	8,243	2.80	2.53
154,150 LafargeHolcim (Regd.)	8,243	2.80	
General industrials	6,043	2.05	3.19
163,704 GEA Group	6,043	2.05	
Electronic & electrical equipment	8,768	2.98	2.91
137,068 Schneider Electric	8,768	2.98	
Industrial engineering	9,920	3.37	3.37
346,079 Jungheinrich Pref. (non-voting)	9,920	3.37	
Industrial transportation	13,704	4.65	5.02
296,974 DSV	13,704	4.65	
Support services	29,639	10.06	9.55
313,589 Amadeus IT Holdings	13,730	4.66	
232,885 CTS EVENTIM	7,954	2.70	
441,360 Travis Perkins	7,955	2.70	
Automobiles & parts	6,148	2.09	2.29
73,058 Bayerische Motoren Werke	6,148	2.09	
Food producers	21,605	7.34	5.81
186,306 Nestlé (Regd.)	12,945	4.40	
194,834 Unilever	8,660	2.94	
Household goods & home construction	9,109	3.09	2.60
106,237 Reckitt Benckiser	9,109	3.09	
Personal goods	15,371	5.22	7.17
110,228 HUGO BOSS	7,443	2.53	
73,669 Pandora	7,928	2.69	
Tobacco	0	0.00	3.40
Healthcare equipment & services	8,076	2.74	4.82
103,097 Fresenius Medical Care	8,076	2.74	
Pharmaceuticals & biotechnology	35,725	12.13	11.21
560,566 GlaxoSmithKline	10,804	3.67	
2,663,095 Indivior	10,925	3.71	
418,643 Novo-Nordisk	13,996	4.75	
General retailers	20,208	6.87	6.10
270,447 Hennes & Mauritz	6,761	2.30	
676,511 WH Smith	13,447	4.57	
Media	0	0.00	2.63
Banks	28,367	9.63	9.88
962,362 ING Groep	12,429	4.22	
564,867 Standard Chartered	4,784	1.62	
488,808 Svenska Handelsbanken	6,404	2.18	
377,552 UniCredit	4,750	1.61	
Non-life insurance	10,511	3.57	3.52
834,070 Hiscox	10,511	3.57	
Life insurance	5,060	1.72	0.00
212,009 Topdanmark	5,060	1.72	
Software & computer services	16,453	5.59	5.09
187,840 SAP	16,453	5.59	
Portfolio of investments	287,130	97.51	98.20

M&G Pan European Select Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at	28.02.17	28.02.17	31.08.16
Holding	€'000	%	%
'AAA' rated money market funds ^[a]	6,664	2.26	2.33
5,679,000 Northern Trust Global Fund - Sterling	6,664	2.26	
Total portfolio	293,794	99.77	100.53
Net other assets / (liabilities)	673	0.23	(0.53)
Net assets attributable to shareholders	294,467	100.00	100.00

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

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

Top ten portfolio transactions

for the six months to 28 February 2017

Largest purchases	€'000
Linde	9,065
Novo-Nordisk	8,429
Akzo Nobel	8,265
Unilever	7,394
SAP	5,732
WH Smith	5,569
Topdanmark	5,316
UniCredit	5,179
Amadeus IT Holdings	4,939
ING Groep	4,755
Other purchases	63,680
Total purchases	128,323
Largest sales	€'000
British American Tobacco	6,729
adidas	6,301
Pearson	4,714
Bayer	3,769
Barclays	2,994
UniCredit	2,814
Ambu	2,634
DSV	1,222
GEA Group	1,109
Nestlé (Regd.)	350
Other sales	3,958
Total sales	36,594

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

M&G Pan European Select Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

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

Fund level performance

Fund net asset value			
as at	28.02.17	31.08.16	31.08.15
	€'000	€'000	€'000
Fund net asset value (NAV)	294,467	191,928	245,560

Performance since launch

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



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

M&G Pan European Select Fund

Financial highlights

Fund performance

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

Long-term performance by share class

	Six months 01.09.16 % [a]	Three years 03.03.14 % p.a.	Five years 01.03.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+2.6	+7.3	+9.3	+4.1 [c]
Class 'B'	+2.4	n/a	n/a	+9.7 [d]
Class 'C'	+3.0	+8.1	+10.1	+4.9 [c]
Sterling [e]				
Class 'A'	+4.3	+8.7	+9.8	+8.1 [f]
Class 'I'	+4.7	+9.5	n/a	+13.1 [g]
Class 'R'	+4.6	+9.3	n/a	+12.8 [g]
Class 'X'	+4.3	+8.7	+9.8	+12.6 [h]
US dollar [b]				
Class 'A'	-3.0	n/a	n/a	+0.3 [i]
Class 'C'	-2.7	n/a	n/a	+1.0 [i]

[a] Absolute basis.

[b] Price to price with net income reinvested.

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

[d] 18 March 2016, the launch date of the share class. Absolute basis.

[e] Price to price with income reinvested.

[f] 29 September 1989, the end of the initial offer period of the predecessor unit trust.

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

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

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

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G Pan European Select Fund

Financial highlights

Fund performance

Portfolio transaction costs

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

- **Direct portfolio transaction costs:** Broker execution commission 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

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.08	0.08	0.01	0.06
Taxes	0.11	0.01	0.01	0.04
Costs before dilution adjustments	0.19	0.09	0.02	0.10
Dilution adjustments ^[c]	(0.18)	(0.03)	(0.02)	(0.08)
Total direct portfolio transaction costs	0.01	0.06	0.00	0.02
as at	28.02.17	31.08.16	31.08.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.05	0.06	0.09	0.07

^[a] Average of first three columns.

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

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

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 28 November 2001.

	Six months to 28.02.17	Year to 31.08.16	Year to 31.08.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,791.43	1,712.31	1,517.49
Return before operating charges and after direct portfolio transaction costs	56.21	107.86	223.29
Operating charges	(14.78)	(28.74)	(28.47)
Return after operating charges	41.43	79.12	194.82
Distributions	0.00	(45.62)	(44.57)
Retained distributions	0.00	45.62	44.57
Closing NAV	1,832.86	1,791.43	1,712.31
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.71	1.54	0.38
Dilution adjustments ^[b]	(1.62)	(0.55)	(0.28)
Total direct portfolio transaction costs	0.09	0.99	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.70	1.68	1.68
Return after operating charges	+2.31	+4.62	+12.84
Historic yield ^[c]	1.07	2.49	2.62
Effect on yield of charges offset against capital	0.00	1.50	1.50

Other information

Closing NAV (€'000)	112,142	13,136	11,571
Closing NAV percentage of total fund NAV (%)	38.08	6.85	4.71
Number of shares	6,118,422	733,275	675,770
Highest share price (Euro ¢)	1,856.75	1,848.75	1,927.64
Lowest share price (Euro ¢)	1,668.64	1,488.66	1,375.48

M&G Pan European Select Fund

Financial highlights

Specific share class performance

Euro Class 'B' Accumulation share performance

The share class was launched on 18 March 2016.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	1,064.43	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	33.32	74.39	n/a
Operating charges	(11.39)	(9.96)	n/a
Return after operating charges	21.93	64.43	n/a
Distributions	0.00	(19.30)	n/a
Retained distributions	0.00	19.30	n/a
Closing NAV	1,086.36	1,064.43	n/a
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.01	0.42	n/a
Dilution adjustments ^[b]	(0.96)	(0.15)	n/a
Total direct portfolio transaction costs	0.05	0.27	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	n/a
Operating charges	2.19	2.17	n/a
Return after operating charges	+2.06	+6.44	n/a
Historic yield ^[c]	0.83	2.48	n/a
Effect on yield of charges offset against capital	0.00	2.00	n/a
Other information			
Closing NAV (€'000)	108	32	n/a
Closing NAV percentage of total fund NAV (%)	0.04	0.02	n/a
Number of shares	9,907	3,000	n/a
Highest share price (Euro ¢)	1,100.60	1,072.77	n/a
Lowest share price (Euro ¢)	990.59	952.42	n/a

Euro Class 'C' Accumulation share performance

The share class was launched on 28 November 2001.

Change in NAV per share	Six months to 28.02.17 Euro ¢	Year to 31.08.16 Euro ¢	Year to 31.08.15 Euro ¢
Opening NAV	2,007.15	1,904.11	1,674.82
Return before operating charges and after direct portfolio transaction costs	63.06	120.71	246.84
Operating charges	(8.99)	(17.67)	(17.55)
Return after operating charges	54.07	103.04	229.29
Distributions	(1.17)	(50.91)	(49.48)
Retained distributions	1.17	50.91	49.48
Closing NAV	2,061.22	2,007.15	1,904.11
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1.88	1.72	0.42
Dilution adjustments ^[b]	(1.79)	(0.62)	(0.32)
Total direct portfolio transaction costs	0.09	1.10	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+2.69	+5.41	+13.69
Historic yield ^[c]	1.81	2.48	2.62
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (€'000)	22,165	20,558	18,606
Closing NAV percentage of total fund NAV (%)	7.53	10.71	7.58
Number of shares	1,075,357	1,024,259	977,156
Highest share price (Euro ¢)	2,087.88	2,059.82	2,139.95
Lowest share price (Euro ¢)	1,872.08	1,661.02	1,519.50

Sterling Class 'A' Income share performance

The share class was launched on 29 September 1989.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	191.32	162.23	160.04
Return before operating charges and after direct portfolio transaction costs	6.97	36.89	9.33
Operating charges	(1.59)	(2.86)	(2.82)
Return after operating charges	5.38	34.03	6.51
Distributions	(0.91)	(4.94)	(4.32)
Closing NAV	195.79	191.32	162.23
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.18	0.15	0.04
Dilution adjustments ^[b]	(0.17)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.01	0.10	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+2.81	+20.98	+4.07
Historic yield ^[c]	2.75	2.54	2.68
Effect on yield of charges offset against capital	1.65	1.50	1.50
Other information			
Closing NAV (€'000)	86,418	86,393	146,674
Closing NAV percentage of total fund NAV (%)	29.35	45.01	59.73
Number of shares	37,615,647	38,299,702	66,272,804
Highest share price (UK p)	198.28	200.74	183.01
Lowest share price (UK p)	178.92	151.29	145.51

Sterling Class 'A' Accumulation share performance

The share class was launched on 29 September 1989.

Change in NAV per share	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Opening NAV	386.16	318.98	306.54
Return before operating charges and after direct portfolio transaction costs	14.03	72.81	17.85
Operating charges	(3.21)	(5.63)	(5.41)
Return after operating charges	10.82	67.18	12.44
Distributions	0.00	(9.75)	(8.30)
Retained distributions	0.00	9.75	8.30
Closing NAV	396.98	386.16	318.98
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.37	0.30	0.07
Dilution adjustments ^[b]	(0.35)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.02	0.19	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+2.80	+21.06	+4.06
Historic yield ^[c]	1.16	2.48	2.62
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (€'000)	52,251	52,537	56,320
Closing NAV percentage of total fund NAV (%)	17.74	27.37	22.93
Number of shares	11,217,090	11,539,174	12,941,886
Highest share price (UK p)	400.18	395.95	352.05
Lowest share price (UK p)	361.08	297.54	278.69

M&G Pan European Select Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,494.22	1,257.43	1,230.22
Return before operating charges and after direct portfolio transaction costs	54.58	287.53	72.91
Operating charges	(6.87)	(12.27)	(12.27)
Return after operating charges	47.71	275.26	60.64
Distributions	(7.14)	(38.47)	(33.43)
Closing NAV	1,534.79	1,494.22	1,257.43
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.44	1.20	0.30
Dilution adjustments ^[b]	(1.37)	(0.43)	(0.22)
Total direct portfolio transaction costs	0.07	0.77	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+3.19	+21.89	+4.93
Historic yield ^[c]	2.73	2.53	2.67
Effect on yield of charges offset against capital	0.90	0.75	0.75
Other information			
Closing NAV (€'000)	10,727	10,434	6,375
Closing NAV percentage of total fund NAV (%)	3.64	5.44	2.60
Number of shares	595,661	592,296	371,647
Highest share price (UK p)	1,553.05	1,567.15	1,414.41
Lowest share price (UK p)	1,399.96	1,176.61	1,120.36

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	1,680.78	1,377.97	1,314.27
Return before operating charges and after direct portfolio transaction costs	61.23	316.27	76.77
Operating charges	(7.73)	(13.46)	(13.07)
Return after operating charges	53.50	302.81	63.70
Distributions	(0.81)	(42.29)	(35.79)
Retained distributions	0.81	42.29	35.79
Closing NAV	1,734.28	1,680.78	1,377.97
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1.62	1.31	0.32
Dilution adjustments ^[b]	(1.53)	(0.47)	(0.24)
Total direct portfolio transaction costs	0.09	0.84	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+3.18	+21.98	+4.85
Historic yield ^[c]	1.82	2.48	2.61
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (€'000)	6,268	6,125	3,116
Closing NAV percentage of total fund NAV (%)	2.13	3.19	1.27
Number of shares	307,983	309,100	165,777
Highest share price (UK p)	1,746.80	1,722.82	1,516.40
Lowest share price (UK p)	1,574.61	1,289.70	1,196.00

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	147.60	124.52	122.37
Return before operating charges and after direct portfolio transaction costs	5.37	28.43	6.96
Operating charges	(0.86)	(1.54)	(1.51)
Return after operating charges	4.51	26.89	5.45
Distributions	(0.70)	(3.81)	(3.30)
Closing NAV	151.41	147.60	124.52
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.14	0.12	0.03
Dilution adjustments ^[b]	(0.13)	(0.04)	(0.02)
Total direct portfolio transaction costs	0.01	0.08	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.18	1.18	1.18
Return after operating charges	+3.06	+21.59	+4.45
Historic yield ^[c]	2.74	2.54	2.67
Effect on yield of charges offset against capital	1.15	1.00	1.00
Other information			
Closing NAV (€'000)	220	161	156
Closing NAV percentage of total fund NAV (%)	0.07	0.08	0.06
Number of shares	123,645	92,645	91,534
Highest share price (UK p)	153.22	154.82	140.20
Lowest share price (UK p)	138.20	116.39	111.18

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	166.24	136.63	130.65
Return before operating charges and after direct portfolio transaction costs	6.05	31.30	7.60
Operating charges	(0.97)	(1.69)	(1.62)
Return after operating charges	5.08	29.61	5.98
Distributions	0.00	(4.20)	(3.55)
Retained distributions	0.00	4.20	3.55
Closing NAV	171.32	166.24	136.63
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.16	0.13	0.03
Dilution adjustments ^[b]	(0.15)	(0.05)	(0.02)
Total direct portfolio transaction costs	0.01	0.08	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.17	1.17	1.18
Return after operating charges	+3.06	+21.67	+4.58
Historic yield ^[c]	1.58	2.49	2.61
Effect on yield of charges offset against capital	0.00	1.00	1.00
Other information			
Closing NAV (€'000)	99	126	131
Closing NAV percentage of total fund NAV (%)	0.03	0.07	0.05
Number of shares	49,120	64,120	70,075
Highest share price (UK p)	172.57	170.42	150.51
Lowest share price (UK p)	155.64	127.73	118.86

M&G Pan European Select Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	189.24	160.46	158.31
Return before operating charges and after direct portfolio transaction costs	6.88	36.50	9.22
Operating charges	(1.57)	(2.83)	(2.80)
Return after operating charges	5.31	33.67	6.42
Distributions	(0.90)	(4.89)	(4.27)
Closing NAV	193.65	189.24	160.46
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.18	0.15	0.04
Dilution adjustments ^[b]	(0.17)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.01	0.10	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+2.81	+20.98	+4.06
Historic yield ^[c]	2.75	2.54	2.67
Effect on yield of charges offset against capital	1.65	1.50	1.50
Other information			
Closing NAV (€'000)	1,347	1,401	1,617
Closing NAV percentage of total fund NAV (%)	0.46	0.73	0.66
Number of shares	592,650	627,780	738,548
Highest share price (UK p)	196.12	198.55	181.01
Lowest share price (UK p)	176.96	149.64	143.92

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 28.02.17 UK p	Year to 31.08.16 UK p	Year to 31.08.15 UK p
Change in NAV per share			
Opening NAV	381.62	315.23	302.93
Return before operating charges and after direct portfolio transaction costs	13.86	71.95	17.63
Operating charges	(3.17)	(5.56)	(5.33)
Return after operating charges	10.69	66.39	12.30
Distributions	0.00	(9.63)	(8.19)
Retained distributions	0.00	9.63	8.19
Closing NAV	392.31	381.62	315.23
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.37	0.30	0.07
Dilution adjustments ^[b]	(0.35)	(0.11)	(0.05)
Total direct portfolio transaction costs	0.02	0.19	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.68	1.68	1.68
Return after operating charges	+2.80	+21.06	+4.06
Historic yield ^[c]	1.16	2.48	2.61
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (€'000)	874	886	946
Closing NAV percentage of total fund NAV (%)	0.30	0.46	0.39
Number of shares	189,848	196,909	219,896
Highest share price (UK p)	395.46	391.29	347.90
Lowest share price (UK p)	356.83	294.03	275.42

US dollar Class 'A' Accumulation share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,030.40	996.97	1,032.83
Return before operating charges and after direct portfolio transaction costs	(19.33)	49.81	(18.24)
Operating charges	(7.97)	(16.38)	(17.62)
Return after operating charges	(27.30)	33.43	(35.86)
Distributions	0.00	(26.15)	(25.84)
Retained distributions	0.00	26.15	25.84
Closing NAV	1,003.10	1,030.40	996.97
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.92	0.88	0.23
Dilution adjustments ^[b]	(0.87)	(0.32)	(0.17)
Total direct portfolio transaction costs	0.05	0.56	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	1.68	1.67	1.66
Return after operating charges	-2.65	+3.35	-3.47
Historic yield ^[c]	1.13	2.48	2.62
Effect on yield of charges offset against capital	0.00	1.50	1.50
Other information			
Closing NAV (€'000)	173	134	44
Closing NAV percentage of total fund NAV (%)	0.06	0.07	0.02
Number of shares	18,274	14,465	5,000
Highest share price (US ¢)	1,055.53	1,051.19	1,106.29
Lowest share price (US ¢)	925.60	871.33	904.68

US dollar Class 'C' Accumulation share performance

The share class was launched on 8 August 2014.

	Six months to 28.02.17 US ¢	Year to 31.08.16 US ¢	Year to 31.08.15 US ¢
Change in NAV per share			
Opening NAV	1,046.67	1,005.13	1,033.31
Return before operating charges and after direct portfolio transaction costs	(19.35)	50.54	(19.23)
Operating charges	(4.60)	(9.00)	(8.95)
Return after operating charges	(23.95)	41.54	(28.18)
Distributions	(0.48)	(26.55)	(26.44)
Retained distributions	0.48	26.55	26.44
Closing NAV	1,022.72	1,046.67	1,005.13
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.96	0.94	0.20
Dilution adjustments ^[b]	(0.91)	(0.34)	(0.15)
Total direct portfolio transaction costs	0.05	0.60	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.06	0.00
Operating charges	0.93	0.91	0.88
Return after operating charges	-2.29	+4.13	-2.73
Historic yield ^[c]	1.90	2.48	2.66
Effect on yield of charges offset against capital	0.00	0.75	0.75
Other information			
Closing NAV (€'000)	1,675	5	4
Closing NAV percentage of total fund NAV (%)	0.57	0.00	0.00
Number of shares	173,610	500	500
Highest share price (US ¢)	1,072.36	1,067.64	1,112.94
Lowest share price (US ¢)	941.99	881.41	905.98

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

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

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

M&G Pan European Select Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Income				
Net capital gains / (losses)		6,812		(7,345)
Revenue	1,156		692	
Expenses	(1,595)		(1,491)	
Net revenue / (expense) before taxation	(439)		(799)	
Taxation	(9)		18	
Net revenue / (expense) after taxation		(448)		(781)
Total return before distributions		6,364		(8,126)
Distributions		(822)		(530)
Change in net assets attributable to shareholders from investment activities		5,542		(8,656)

Statement of change in net assets attributable to shareholders

for the six months to 28 and 29 February	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		191,928		245,560
Amounts received on issue of shares	121,730		8,645	
Amounts paid on cancellation of shares	(25,011)		(68,171)	
		96,719		(59,526)
Dilution adjustments		254		57
Change in net assets attributable to shareholders from investment activities (see above)		5,542		(8,656)
Retained distributions on Accumulation shares		16		243
Unclaimed distributions		8		9
Closing net assets attributable to shareholders		294,467		177,687

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	28 February 2017	31 August 2016
	€'000	€'000
Assets		
Fixed assets		
Investments	293,794	192,952
Current assets		
Debtors	1,380	1,411
Total assets	295,174	194,363
Liabilities		
Creditors		
Distribution payable	(459)	(2,291)
Other creditors	(248)	(144)
Total liabilities	(707)	(2,435)
Net assets attributable to shareholders	294,467	191,928

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

With effect from 1 September 2016, the distribution policy has been amended so that in determining the amount available for reinvestment to Accumulation shares, the annual management charge is no longer offset against capital, reducing the amount available for reinvestment. For Income shares, in addition to the annual management charge, the administration charge is now offset against capital, increasing the amount available for distribution, whilst restraining capital performance to an equivalent extent.

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

M&G Pan European Select Fund

Financial statements and notes

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M&G Investment Funds (1)

Other regulatory disclosures

Swiss investor information

For funds registered in Switzerland we are required by FINMA to disclose the Total Expense Ratio (TER).

For these funds the TERs are the same as the operating charges disclosed in each fund's financial highlights section.

Hong Kong investor information

The total investment costs as at 28 February 2017 for the following funds are:

Fund	Total investment at cost
M&G Global Basics Fund	\$2,288,866,000
M&G Global Leaders Fund	\$557,217,000
M&G North American Dividend Fund	\$614,995,000
M&G Pan European Select Fund	€273,294,000

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.

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Distribution yield: Expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.

Diversification: The practice of investing in a variety of assets. This is a risk management technique where, in a well-diversified portfolio, any loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

Dividend: Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

Duration: A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Duration risk: The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

Emerging economy or market: Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

Equities: Shares of ownership in a company.

Exchange traded: Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

Ex-dividend, 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.

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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.

Real yield: The return of an investment, adjusted for changes in prices in an economy.

Retail Prices Index (RPI): A UK inflation index that measures the rate of change in prices for a basket of goods and services in the UK, including mortgage payments and council tax.

Risk: The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

Risk management: The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.

Risk premium: The difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. The risk premium can be considered the 'price' or 'pay-off' for taking on increased risk. A higher risk premium implies higher risk.

Risk-free asset: An asset that notionally carries no risk of non-payment by the borrower such as a high-quality fixed income security issued by a government or cash.

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasuries: Fixed income securities issued by the US government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Notes

