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Prospectus

M&G Investment Funds (3)

# Prospectus

## M&G Investment Funds (3)

This document constitutes the Prospectus for M&G INVESTMENT FUNDS (3) (the 'Company') which has been prepared in accordance with the Open-Ended Investment Companies Regulations 2001 and the rules contained in the Collective Investment Schemes Sourcebook published by the FCA as part of its Handbook of Rules and Guidance.

The Prospectus is dated and is valid as at 1 July 2014.

Copies of this Prospectus have been sent to the Financial Conduct Authority and National Westminster Bank Plc as Depositary.

The Prospectus is based on information, law and practice at the date hereof but where it refers to any statutory provision or regulation this includes any modification or re-enactment that has been made. The Company is not bound by any out of date prospectus when it has issued a new prospectus and potential investors should check that they have the most recently published prospectus.

M&G Securities Limited, the Authorised Corporate Director of the Company, is the person responsible for the information contained in this Prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained herein does not contain any untrue or misleading statement or omit any matters required by Regulations to be included in it. M&G Securities Limited accepts responsibility accordingly. No person has been authorised by the Company to give any information or to make any representations in connection with the offering of Shares other than those contained in the Prospectus and, if given or made, such information or representations must not be relied on as having been made by the Company. The delivery of this Prospectus (whether or not accompanied by any reports) or the issue of Shares shall not, under any circumstances, create any implication that the affairs of the Company have not changed since the date hereof.

The distribution of this Prospectus and the offering of Shares in certain jurisdictions may be restricted. Persons into whose possession this Prospectus comes are required by the Company to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Warning: the contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to this offer. If you are in any doubt about the contents of this document you should obtain independent professional advice. In particular, no interest in the Company will be issued to any person other than the person to whom this document is addressed. In addition, (a) no offer or invitation to subscribe for Shares in the Company may be made to the public in Hong Kong; and (b) this document has not been approved by the Securities and Futures Commission in Hong Kong or any other regulatory authority in Hong Kong and accordingly interests in the Company may not be offered or sold in Hong Kong by means of this document, other than in circumstances which do not constitute an offer to the public for the purposes of the Hong Kong Companies Ordinance and the Hong Kong Securities and Futures Ordinance, as amended from time to time.

Shares in the Company are not listed on any investment exchange.

Potential investors should not treat the contents of this Prospectus as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of Shares.

The provisions of the Instrument of Incorporation are binding on each of its Shareholders (who are taken to have notice of them).

This Prospectus has been approved for the purpose of section 21(1) of the Financial Services and Markets Act 2000 by M&G Securities Limited.

The Depositary is not a person responsible for the information contained in this Prospectus and accordingly does not accept any responsibility therefore under the Regulations or otherwise.

If you are in any doubt about the contents of this Prospectus you should consult your professional adviser.

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# Definitions

## M&G Investment Funds (3)

**Accumulation Share:** a share in the Company in respect of which income allocated thereto is credited periodically to capital pursuant to the Regulations;

**ACD:** M&G Securities Limited, the Authorised Corporate Director of the Company;

**ACD Agreement:** The agreement to be entered into between the Company and the ACD authorising the ACD to manage the affairs of the Company;

**Approved Bank** in relation to a bank account opened by the Company:

- (a) if the account is opened at a branch in the United Kingdom;
  - (i) the Bank of England; or
  - (ii) the central bank of a member state of the OECD; or
  - (iii) a bank or a building society; or
  - (iv) a bank which is supervised by the central bank or other banking regulator of a member state of the OECD; or
- (b) if the account is opened elsewhere:
  - (i) a bank in (a); or
  - (ii) a credit institution established in an EEA State other than in the United Kingdom and duly authorised by the relevant Home State Regulator; or
  - (iii) a bank which is regulated in the Isle of Man or the Channel Islands; or
- (c) a bank supervised by the South African Reserve Bank; or
- (d) **any other bank that:**
  - (i) **is subject to regulation by a national banking regulator;**
  - (ii) **is required to provide audited accounts;**
  - (iii) **has minimum net assets of £5 million (or its equivalent in any other currency at the relevant time) and has a surplus revenue over expenditure for the last two financial years; and**
  - (iv) **has an annual audit report which is not materially qualified.**

**Base Currency:** in relation to the Company the base currency is sterling

**BCD Credit Institution:** a credit institution under the Banking Consolidation Directive

**Class or Classes:** in relation to Shares, means (according to the context) all of the Shares related to a single Sub-fund or a particular class or classes of Share related to a single Sub-fund;

**Client Account:** A bank account held by us in accordance with the FCA Handbook of Rules and Guidance;

**COLL:** refers to the appropriate chapter or rule in the COLL Sourcebook issued by the FCA as amended or re-enacted from time to time;

**Company:** M&G Investment Funds (3);

**Dealing Day:** Monday to Friday except for bank holidays in England and Wales and other days at the ACD's discretion;

**Depository:** National Westminster Bank Plc, the depository of the Company;

**Efficient Portfolio Management:** means the use of techniques and instruments which relate to transferable securities and approved money-market instruments and which fulfil the following criteria:

- (a) they are economically appropriate in that they are realised in a cost effective way; and
- (b) they are entered into for one or more of the following specific aims:

- **reduction of risk;**

- **reduction of cost;**

- **generation of additional capital or income for the scheme with a risk level which is consistent with the risk profile of the scheme and the risk diversification rules laid down in COLL**

**Eligible Institution:** one of certain eligible institutions being a BCD credit institution authorised by its home state regulator or an Investment Firm authorised by its home state regulator as defined in the glossary of definitions in the FCA Handbook;

**Fraction:** a smaller denomination share (on the basis that one thousand smaller denomination shares make one larger denomination share);

**FCA:** the Financial Conduct Authority;

**Instrument of Incorporation:** the instrument of incorporation of the Company as amended from time to time;

**Intermediate Unitholder:** a firm whose name is entered in the register of a Sub-fund, or which holds Shares indirectly through a third party acting as a nominee, and which:

(a) is not the beneficial owner of the relevant Share; and

(b) does not manage investments on behalf of the relevant beneficial owner of the Share; or

(c) does not act as a depository of a collective investment scheme or on behalf of such a depository in connection with its role in holding property subject to the scheme;

**Investment Manager:** one or more of the companies appointed as the investment manager by the ACD shown in section 6, as the context may require;

**Investment Firm:** an investment firm that provides investment services as defined in the glossary of definitions in the FCA handbook;

**M&G OEIC:** M&G Investment Funds (1), M&G Investment Funds (2), M&G Investment Funds (3), M&G Investment Funds (4), M&G Investment Funds (5), M&G Investment Funds (7), M&G Investment Funds (8), M&G Investment Funds (9), M&G Investment Funds (10), M&G Investment Funds (11), M&G Investment Funds (12), M&G Investment Funds (14), M&G Global Dividend Fund, M&G Dynamic Allocation Fund, M&G Global Macro Bond Fund, M&G Optimal Income Fund, M&G Property Portfolio, M&G Strategic Corporate Bond Fund or any other open-ended investment company with variable capital incorporated in England and Wales and managed by the ACD;

**Mainly:** within an investment objective, an amount greater than 70%;

**Member State:** those countries which are members of the European Union or the European Economic Area at any given time;

**Net Asset Value or NAV:** the value of the scheme property of the Company (or of any Sub-fund as the context requires) less the liabilities of the Company (or of the Sub-fund concerned) as calculated in accordance with the Company's Instrument of Incorporation;

**Primarily:** within an investment objective, at least 80% of the portfolio;

**Predominantly:** within an investment objective, at least 80% of the portfolio;

**Reference Currency:** the currency on which a fund bases its investment strategy where different from the Base Currency or the Valuation Currency of the Company;

**The Regulations:** the Open-Ended Investment Companies Regulations 2001 and the rules contained in the Collective Investment Schemes Sourcebook published by the FCA as part of its Handbook of Rules and Guidance;

**SDRT:** Stamp Duty Reserve Tax;

# Definitions

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**Scheme property:** the property of the Company to be given to the Depositary for safekeeping, as required by the Regulations;

**Share or Shares:** a share or shares in the Company (including larger denomination Shares and fractions), or where appropriate a share or shares in any other M&G OEIC;

**Shareholder:** a holder of registered or bearer shares in the Company;

**Sub-fund or Sub-fund:** a Sub-fund of the Company (bearing part of the scheme property of the Company which is pooled separately) and to which specific assets and liabilities of the Company may be allocated and which is invested in accordance with the investment objective applicable to that Sub-fund;

**Switch:** the exchange of Shares of one Class or Sub-fund for Shares of another Class or Sub-fund of any M&G OEIC.

**Valuation Currency:** the currency in which a fund is valued, being the currency noted for each fund in Appendices 1 and 4;

**XD date:** the XD (or Ex-Dividend) date is the date on which the income is removed from the price of an Income Share pending the payment of a distribution.

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## M&G Investment Funds (3)

### Operating Structure and Details

#### 1 The Company

1.1 M&G INVESTMENT FUNDS (3) is an open-ended investment company with variable capital, incorporated in England and Wales under registered number IC 117 and authorised by the Financial Conduct Authority with effect from 8 August 2001. The Company has been established for an unlimited duration.

The Company has been certified by the FCA as complying with the conditions necessary for it to enjoy the rights conferred by the EC Directive on undertakings for collective investment in transferable securities ('UCITS').

1.2 The Head Office of the Company is at Laurence Pountney Hill, London EC4R 0HH and is also the address of the place in the United Kingdom for service on the Company of notices or other documents required or authorised to be served on it. The Company does not have any interest in immovable property or any tangible moveable property.

1.3 The Base Currency of the Company is pounds sterling.

1.4 The maximum share capital of the Company is currently £250,000,000,000 and the minimum is £100. Shares in the Company have no par value and therefore the share capital of the Company at all times equals the Company's current Net Asset Value.

1.5 Shareholders in the Company are not liable for the debts of the Company (see also paragraph 28 - Risk Factors).

1.6 The Company has been established as an 'umbrella company' (as defined in the Regulations) and therefore different Sub-funds may be formed by the ACD, subject to approval from the FCA. On the establishment of a new Sub-fund or share class an updated prospectus will be prepared setting out the relevant information concerning the new Sub-fund or share class.

#### 2 Company structure

2.1 The Company is an umbrella company. The assets of each Sub-fund are treated as separate from those of every other Sub-fund and will be invested in accordance with that Sub-fund's own investment objective and policy.

2.2 At present, there are 9 Sub-funds, which are available for investment:

M&G Corporate Bond Fund,

M&G Dividend Fund,

M&G Emerging Markets Bond Fund,

M&G European Corporate Bond Fund,

M&G European High Yield Bond Fund,

M&G Fund of Investment Trust Shares,

M&G Global Government Bond Fund,

M&G Recovery Fund,

M&G Smaller Companies Fund.

These Sub-funds are all UCITS schemes within the meaning of the Regulations.

2.3 The investment objective, investment policy and other details of each Sub-fund are set out in Appendices 1 and 4. The investment and borrowing powers under the Regulations applicable to each Sub-fund are set out in Appendix 2 and the eligible securities and derivatives markets on which the Sub-funds can invest are set out in Appendix 3.

2.4 When there is more than one Sub-fund in issue, each Sub-fund has a specific portfolio of assets and investments to which each Sub-fund's assets and liabilities are attributable and investors should view each Sub-fund as a separate investment entity.

2.5 The Sub-funds are segregated portfolios of assets and, accordingly, the assets of a Sub-fund belong exclusively to that Sub-fund and shall not be made available to discharge (directly or indirectly) the liabilities of, or claims against, any other person or body, including the Company or any other Sub-fund and shall not be available for any such purpose.

2.6 Shareholders in the Company are not liable for the debts of the Company or any Sub-fund in the Company. (see also paragraph 28 - Risk Factors).

2.7 Subject to the above, each Sub-fund will be charged with the liabilities, expenses, costs and charges of the Company attributable to that Sub-fund and within the Sub-funds charges will be allocated between share classes in accordance with the terms of issue of those share classes.

2.8 Any assets, liabilities, expenses, costs or charges not attributable to a particular Sub-fund may be allocated by the ACD in a manner which is fair to Shareholders as a whole but they will normally be allocated to all Sub-funds pro rata to the value of the net assets of the relevant Sub-funds.

#### 3 Shares

##### 3.1 Classes of Share within the Sub-funds

3.1.1 Several share classes may be issued in respect of a Sub-fund. The Instrument of Incorporation allows gross income and gross accumulation Shares to be issued as well as net income and net accumulation Shares. Net Shares are Shares in respect of which income allocated to them is distributed periodically to the relevant Shareholders (in the case of income Shares) or credited periodically to capital (in the case of accumulation Shares), in either case in accordance with relevant tax law net of any tax deducted or accounted for by the Company. Gross Shares are income or accumulation Shares where, in accordance with relevant tax law, distribution or allocation of income is made without any UK tax being deducted or accounted for by the Company. The share classes in issue for each Sub-fund are shown in Appendices 1 and 4.

3.1.2 Any Sub-fund may make available such further classes of Share as the ACD may decide.

3.1.3 Shareholders should note that the ACD issues hedged Share Classes. Share class hedging activity does not form part of the investment strategy of a Sub-fund but is designed to reduce exchange rate fluctuations between the currency of the hedged Share Class and the Valuation Currency or Reference Currency of the Sub-fund. All costs associated with operating hedging transactions for these Share Classes will be borne by Shareholders of these Share Classes.

Forward currency contracts, or other instruments that may achieve a similar result, will be used to hedge the total return (capital and revenue) of Share Classes which are not denominated in the Sub-fund's Valuation Currency or Reference Currency thereby reducing exposure to movements in rates of currency exchange between the currency

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of the Share Classes and the Valuation Currency or Reference Currency of the Sub-funds.

The hedging position will be reviewed on each Dealing Day and adjusted when there is a material change, for example, following asset allocation. The Reference Currency of the M&G European Corporate Bond Fund and the M&G European High Yield Bond Fund is the Euro.

- 3.1.4 Holders of Income Shares are entitled to be paid the income attributed to such Shares on the relevant interim and annual allocation dates net of tax. The price of such Shares immediately after the end of the relevant accounting period reduces to reflect these allocations of income.
- 3.1.5 Holders of Accumulation Shares are not entitled to be paid the income attributable to such Shares but that income is automatically transferred to (and retained as part of) the capital assets of the relevant Sub-fund immediately after the relevant interim and / or annual accounting dates. The price of such Shares continues to reflect this retention of the income entitlement, which will be transferred after deduction of applicable tax.
- 3.1.6 Where a Sub-fund has different classes of Share available, each class may attract different charges and expenses and so monies may be deducted from classes in unequal proportions. For this and like reasons, the proportionate interests of the classes within a Sub-fund will vary from time to time.
- 3.1.7 When different Sub-funds are available, Shareholders will be entitled (subject to certain restrictions) to switch all or some of their Shares in a Sub-fund for Shares within a different Sub-fund or a different M&G OEIC. Details of this switching facility and the restrictions are set out in paragraph 15 of this document.
- 3.1.8 Holders of Income Shares may convert all or some of their Shares to Accumulation Shares of the same Class in the same Sub-fund, and holders of Accumulation Shares may convert all or some of their Shares to Income Shares of the same Class in the same Sub-fund. Details of this conversion facility are set out in paragraph 15.9 of this document.
- 3.1.9 Sterling Class 'C' Shares are available only to a company which the ACD deems to be an associate company or to other collective investment schemes managed by the ACD or a company which the ACD deems to be an associate company.
- 3.1.10 Sterling Class R Shares are available only to Intermediate Unitholders or where the deal has been arranged by a financial adviser.

## 4 Management and Administration

### 4.1 Authorised Corporate Director

- 4.1.1 The Authorised Corporate Director of the Company is M&G Securities Limited which is a private company limited by shares incorporated in England and Wales under the Companies Acts 1862 to 1900 on 12 November 1906. The ultimate holding company of the ACD is Prudential plc, a company incorporated in England and Wales.

### 4.1.2 Registered Office and Head Office:

Laurence Pountney Hill, London EC4R 0HH.

### Share Capital:

Authorised	£100,000
Issued and paid-up	£100,000

### Directors:

Mr Gary Cotton,  
Mr Martin Lewis,  
Mr Graham MacDowall,  
Mr Laurence Mumford,  
Mr William Nott,  
Mr Philip Jelfs.

All of the directors have significant business activities which are not connected to those of the ACD but of other companies within the M&G Group.

- 4.1.3 The ACD is responsible for managing and administering the Company's affairs in compliance with the Regulations. Other companies for which the ACD has these responsibilities are M&G Investment Funds (1), M&G Investment Funds (2), M&G Investment Funds (4), M&G Investment Funds (5), M&G Investment Funds (7), M&G Investment Funds (8), M&G Investment Funds (9), M&G Investment Funds (10), M&G Investment Funds (11), M&G Investment Funds (12), M&G Global Dividend Fund, M&G Dynamic Allocation Fund, M&G Global Macro Bond Fund, M&G Optimal Income Fund, M&G Property Portfolio, M&G Feeder of Property Portfolio and M&G Strategic Corporate Bond Fund. The ACD is also the Manager of the M&G Feeder of Property Portfolio and the managing agent for The Equities Investment Fund for Charities, The Charibond Charities Fixed Interest Common Investment Fund, and The National Association of Almshouses Common Investment Fund.

### 4.2 Terms of Appointment

- 4.2.1 The ACD Agreement provides that the appointment of the ACD is for an initial period of three years and thereafter may be terminated upon twelve months written notice by either the ACD or the Company, although in certain circumstances the agreement may be terminated forthwith by notice in writing by the ACD to the Company or the Depositary, or by the Depositary or the Company to the ACD. The ACD cannot be replaced until the FCA has approved the appointment of another director in place of the retiring ACD. The ACD Agreement may be inspected at the offices of the ACD during normal business hours by any Shareholder or any Shareholder's duly authorised agent. Alternatively, a copy of the ACD Agreement may be sent to any Shareholder at his request within 10 days of the Company's receipt of such request.
- 4.2.2 The ACD is entitled to its pro rata fees and expenses to the date of termination and any additional expenses necessarily realised in settling or realising any outstanding obligations. No compensation for loss of office is provided for in the

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agreement. The ACD Agreement provides indemnities by the Company to the ACD other than for matters arising by reason of the ACD's negligence, default, breach of duty or breach of trust in the performance of the ACD's duties and obligations.

- 4.2.3 Where the ACD deals as principal in the Shares of Sub-funds, any profits or losses arising from such transactions shall accrue to the ACD and not to the Sub-fund. The ACD is under no obligation to account to the Depositary or the Shareholders for any profit it makes on the issue or re-issue of Shares or cancellation of Shares which it has redeemed. The fees to which the ACD is entitled are set out in paragraph 30.

### 5 The Depositary

National Westminster Bank Plc is the Depositary of the Company. The Depositary is a public limited company incorporated in England and Wales. Subject to the Regulations the Depositary is responsible for the safekeeping of the property of the Company entrusted to it and has a duty to take reasonable care to ensure that the Company is managed in accordance with the provisions of the Regulations relating to the pricing of, and dealing in, Shares of the Company and to the allocation of the income of the Company. The appointment of the Depositary was made under an agreement between the Company, the ACD and the Depositary.

5.1 **Registered Office:**

135 Bishopsgate, London, EC2M 3UR

5.2 **Head Office:**

135 Bishopsgate, London, EC2M 3UR

5.3 **Ultimate Holding Company:**

The Royal Bank of Scotland Group plc.

5.4 **Principal Business Activity:**

The principal business activity of the Depositary is banking.

5.5 **Terms of Appointment:**

5.5.1 The Depositary provides its services under the terms of a depositary agreement between the Company and the Depositary (the 'Depositary Agreement'). Subject to the Regulations, the Depositary has full power under the Depositary Agreement to delegate (and authorise its sub-delegates to sub-delegate) all or any part of its duties as Depositary.

5.5.2 The Depositary Agreement may be terminated by six months notice given by either the Company or the Depositary, provided that the Depositary may not voluntarily retire except on the appointment of a new Depositary.

5.5.3 The Depositary Agreement contains indemnities by the Company in favour of the Depositary against (other than in certain circumstances) any liability incurred by the Depositary as a consequence of its safe keeping of any of the scheme property or incurred by it as a consequence of the safe keeping of any of the scheme property by anyone retained by it to assist it to perform its functions of the safe keeping of the scheme property and also (in certain

circumstances) exempts the Depositary from liability.

5.5.4 The Depositary is entitled to the fees, charges and expenses detailed under 'Depositary's Fee, Charges and Expenses' in paragraph 32.

5.5.5 The Depositary has appointed State Street Bank and Trust Company to assist the Depositary in performing its functions of custodian of the documents of title or documents evidencing title to the property of the Company. The relevant arrangements prohibit State Street Bank and Trust Company as such custodian from releasing the documents into the possession of a third party without the consent of the Depositary. The Depositary has appointed International Financial Data Services (UK) Limited in its capacity as registrar to assist the Depositary in performing its functions in relation to the distribution of income.

### 6 The Investment Manager

The ACD has appointed M&G Investment Management Limited ("MAGIM") to provide investment management and advisory services in respect of the Sub-funds identified in Appendices 1 and 4. The Investment Manager has authority to make decisions on behalf of the Company and the ACD in respect of the acquisition and disposal of property at any time comprising the relevant Sub-fund and to advise in respect of the rights associated with the holding of such property. The Investment Manager has been appointed under an agreement between the ACD and the Investment Manager whereby the ACD accepts responsibility for all these services provided by the Investment Manager to the Company. The investment management agreement may be terminated on six months written notice by the Investment Manager or the ACD, or immediately by the ACD if it decides that it is in the best interests of Shareholders to do so.

The Investment Manager's principal activity is acting as an investment manager and it is an Associate of the ACD by being a subsidiary of Prudential plc.

### 7 Administrator and Registrar

The ACD employs International Financial Data Services (UK) Limited to provide certain administration services and act as registrar to the Company.

### 8 The Auditor

The auditor of the Company is Ernst & Young LLP of 10 George Street, Edinburgh EH2 2DZ.

### 9 Register of Shareholders

The Register of Shareholders is maintained by IFDS at its office at IFDS House, St Nicholas Lane, Basildon, Essex SS15 5FS and may be inspected at that address during normal business hours by any Shareholder or any Shareholder's duly authorised agent.

### 10 Fund Accounting and Pricing

The ACD has appointed State Street Bank and Trust Company to undertake the fund accounting and pricing functions on behalf of the Company.

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### 11 Collateral Management

Where the Company enters into OTC derivative transactions, JPMorgan Chase Bank, N.A. will provide administrative services in connection with the collateral management functions.

### 12 Buying, selling and switching shares

The address for postal dealing is P.O.Box 9039, Chelmsford CM99 2XG. Telephone deals can be placed between 8.00 am and 6.00 pm UK time on each Dealing Day (except for Christmas Eve and New Year's Eve when the office closes early) for the sale, redemption and switching of Shares. Deals will be effected at prices determined at the next valuation point (12.00 noon UK time) following receipt of the request, i.e. on a forward pricing basis. Subject to paragraphs 13, 14 and 15, requests may be made by post, telephone, or any electronic or other means which the ACD may from time to time determine, either directly or via an authorised intermediary.

Prices for M&G Investment Funds (3) are calculated every Dealing Day at the valuation point. Postal deals received at our postal dealing address and requests communicated by other means to the ACD before the valuation point will be dealt with at the price calculated on that Dealing Day; requests received after the valuation point will be dealt with at the price calculated on the next following Dealing Day.

The ACD does not currently permit the transfer of Shares by electronic means but may do so in the future at its discretion. For further details please contact the ACD.

### 13 Buying shares

#### 13.1 Procedure for investors in Sterling Share Classes

(Investors in Euro Share Classes should refer to Appendix 4)

13.1.1 On any given Dealing Day the ACD will be willing to sell Shares of at least one Class in each Sub-fund. Shares can be bought as a lump sum investment or by way of a regular savings plan. Postal applications may be made on application forms obtained from the ACD. Alternatively, lump sum investment can be made under approved circumstances by telephoning M&G's Customer Dealing Line 0800 328 3196 between 8.00 am and 6.00 pm UK time on Dealing Days or by visiting the ACD's website: [www.mandg.co.uk](http://www.mandg.co.uk).

13.1.2 The ACD has the right to reject, on reasonable grounds relating to the circumstances of the applicant, any application for Shares in whole or part, and in this event the ACD will return any money sent, or the balance of such monies, at the risk of the applicant. The ACD may also cancel any previously accepted request for the issue of Shares in the event of either non-payment of the amount due, including any provision for SDRT, or undue delay in payment by the applicant, including the non-clearance of cheques or other documents presented in payment. Please note that:

\* Sterling Class 'C' Shares are available only to a company which the ACD deems to be an associate company or to other collective investment schemes managed by the ACD or a company which the ACD deems to be an associate company; and,

\* Sterling Class 'R' Shares are available only to Intermediate Unitholders or where the deal has been arranged by a financial adviser.

13.1.3 Any subscription monies remaining after a whole number of Shares has been issued may not be returned to the applicant. Instead, fractions may be issued in such circumstances.

#### 13.2 Documentation

13.2.1 A contract note giving details of the Shares purchased and the price used will be issued by the end of the business day following the valuation point by reference to which the price is determined, together with, where appropriate, a notice of the applicant's right to cancel.

13.2.2 Payment for Shares purchased by post must accompany the application; payment for Shares purchased by other means must be made by no later than four business days after the valuation point following receipt of the instructions to purchase.

13.2.3 Currently share certificates will not be issued in respect of Shares. Ownership of Shares will be evidenced by an entry on the Company's Register of Shareholders. Statements in respect of periodic allocations of income of each Sub-fund will show the number of Shares held by the recipient in the Sub-fund in respect of which the allocation is made. Individual statements of a Shareholder's Shares will also be issued at any time on request by the registered holder (or, when Shares are jointly held, the first named holder).

13.2.4 The Company has the power to issue bearer Shares but has no plans at present to do so.

#### 13.3 Minimum subscriptions and holdings

13.3.1 The minimum initial lump sum and regular savings plan subscriptions for Shares and the minimum holding in the Sub-funds are set out for each Sub-fund in Appendices 1 and 4. If at any time a Shareholder's holding is below the specified minimum, the ACD reserves the right to sell the Shares and send the proceeds to the Shareholder, or at its absolute discretion convert the Shares to another Share Class within the same Sub-fund.

#### 13.4 Holdings of Class 'R' Shares

13.4.1 Where a purchase by a Shareholder of Sterling Class 'R' Shares has been arranged by a financial adviser the ACD will maintain a record of that financial adviser linked to their account with the ACD. If a Shareholder of Class 'R' Shares has their financial adviser removed from their account (whether at the request of the Shareholder or the financial adviser, or as a result of the financial adviser no longer being authorised by the FCA), the ACD reserves the right at its absolute discretion to switch those Shares to Class 'A' Shares within the same Sub-fund. Shareholders should note that the ongoing charge of Class 'A' Shares is greater than that of Class 'R' Shares.

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### 14 Selling shares

#### 14.1 Procedure for investors in Sterling Share Classes

(Investors in Euro Share Classes should refer to Appendix 4)

14.1.1 Shareholders have the right to sell Shares back to the ACD or require that the ACD arranges for the Company to buy their Shares on any Dealing Day unless the value of Shares which a Shareholder wishes to sell will mean that the Shareholder will hold Shares with a value less than the required minimum holding for the Sub-fund concerned, in which case the Shareholder may be required to sell the entire holding.

14.1.2 Requests to sell Shares may be made by post, telephone or any electronic or other means which the ACD may from time to time determine, either directly or via an authorised intermediary; the ACD may require telephonic or electronic requests to be confirmed in writing.

#### 14.2 Documents the Seller will receive

A contract note giving details of the Shares sold and the price used will be sent to the selling Shareholder (the first named, in the case of joint Shareholders) or to an authorised agent not later than the end of the business day following the valuation point by reference to which the price is determined. Payment of proceeds will be made within four business days of the later of:

14.2.1 receipt by the ACD, when required, of sufficient written instructions duly signed by all the relevant Shareholders and completed as to the appropriate number of Shares, together with any other appropriate evidence of title; and

14.2.2 the valuation point following receipt by the ACD of the request to sell.

14.2.3 The requirement for sufficient written instructions is normally waived for Shareholders of Sterling Classes of Shares if all the following conditions are met:

- Dealing instructions are given by the registered holder in person;
- The holding is registered in a sole name;
- The sale proceeds are to be made payable to the registered holder at their registered address, which has not changed within the previous 30 days; and
- The total amount payable in respect of sales by that holder on one business day does not exceed £11,520.

#### 14.3 Minimum redemption

Subject to the Shareholder maintaining the minimum holding stated in this Prospectus, part of a Shareholder's holding may be sold but the ACD reserves the right to refuse a request to sell Shares if the value of the class of Shares of any Sub-fund to be sold is less than the sum specified in Appendices 1 and 4.

#### 14.4 Regular Withdrawal Facility on M&G Dividend Fund

14.4.1 Accumulation Shareholders, or Income Shareholders who are having their income reinvested to purchase further Shares, and whose holding in M&G Dividend Fund has a value of at

least £1000 may request that a percentage value of their holding is automatically redeemed each year. Such requests must be in writing using the "Regular Withdrawal Facility" form available from the ACD.

14.4.2 Regular redemptions made using the Regular Withdrawal Facility may not exceed, on an annualised basis, an amount greater than 7% of the value of a Shareholding in M&G Dividend Fund.

14.4.3 Subject to the percentage figure in 14.4.2 regular redemptions may be made on a monthly, quarterly, half-yearly or annual basis and will be based upon one twelfth, one quarter, one half or the whole requested percentage value of the Shareholder's holding, respectively. The value of the Shareholding will be calculated using the prevailing price on the day the regular redemption is made (see 14.4.4).

14.4.4 Regular redemptions will be made on the last day of each month. Where the last day of a month is not a Dealing Day, the redemption will take place on the next Dealing Day. Settlement will occur four business days following the redemption. The first redemption will occur in the month following receipt of a Shareholder's "Regular Withdrawal Facility" form.

14.4.5 Settlement of redemptions from the Regular Withdrawal Facility will be made only to the Bank Account nominated on the "Regular Withdrawal Facility" form.

14.4.6 Accumulation Shareholders using the Regular Withdrawal Facility may vary their nominated Bank Account, frequency of redemption or the annual percentage redemption figure by completing a new "Regular Withdrawal Facility" form.

14.4.7 Shares redeemed as part of the Regular Withdrawal Facility will not be subject to any Redemption Charge (see 16.2).

14.4.8 Shareholders using the Regular Withdrawal Facility should note that such redemptions are treated as disposals for the purposes of Capital Gains Tax.

14.4.9 Shareholders should note that where the annual percentage growth in value of their holding is less than the annual percentage value being redeemed using the Regular Withdrawal Facility, they will in effect be eroding the capital value of their original investment.

### 15 Switching and converting shares

#### 15.1 Switching

15.1.1 Holders of Shares in a Sub-fund may at any time switch all or some of their Shares of one Sub-fund ('Original Shares') for Shares of another Sub-fund of this or another M&G OEIC ('New Shares') provided they are eligible to hold Shares in that class or Sub-fund and are in the same currency. The number of New Shares issued will be determined by reference to the respective prices of New Shares and Original Shares at the valuation point applicable at the time the Original Shares are redeemed and the New Shares are issued.

15.1.2 Switching may be effected by giving instructions to the ACD and the Shareholder may be required to provide sufficient written instructions (which, if

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required - see paragraph 14.2.3 - in the case of joint Shareholders must be signed by all the joint holders).

15.1.3 The ACD may at its discretion charge a fee on the switching of Shares between Sub-funds (see paragraph 16.3). When a fee is charged it will not exceed the aggregate of the relevant redemption and initial charges in respect of the Original Shares and the New Shares.

15.1.4 If the switch would result in the Shareholder holding a number of Original Shares or New Shares of a value which is less than the minimum holding in the Sub-fund concerned the ACD may, if it thinks fit, switch the whole of the applicant's holding of Original Shares to New Shares or refuse to effect any switch of the Original Shares. No switches will be effected during any period when the right of Shareholders to require the redemption of their Shares is suspended. The general provision on procedures relating to redemption will apply equally to a switch. Switch instructions must be received by the ACD before the valuation point on a Dealing Day in the Sub-fund or Sub-funds concerned to be dealt with at the prices at those valuation points on that Dealing Day, or at such other date as may be approved by the ACD. Switch requests received after a valuation point will be held over until the valuation point in the next Dealing Day in the relevant Sub-fund or Sub-funds.

15.1.5 The ACD may adjust the number of New Shares to be issued to reflect the imposition of any switching fee together with any other charges or levies in respect of the issue or sale of the New Shares or repurchase or cancellation of the Original Shares as may be permitted pursuant to the Regulations.

15.1.6 Please note that a switch of Shares in one Sub-fund for Shares in any other Sub-fund is treated as a redemption and sale and will, for persons subject to UK taxation, be a realisation for the purposes of capital gains taxation.

15.1.7 A Shareholder who switches Shares in one Sub-fund for Shares in any other Sub-fund has no right by law to withdraw from or cancel the transaction.

15.1.8 Terms and current charges for the switching of Shares of any class of any Sub-fund, including for the Shares issued by another M&G OEIC or for the switching of units in a regulated scheme operated by the ACD, may be obtained from the ACD.

### 15.2 Conversions

15.2.1 Conversions of Income Shares to Accumulation Shares and of Accumulation Shares to Income Shares of the same Class in the same Sub-fund are undertaken by reference to the respective Share prices. For persons subject to UK taxation, this will not be a realisation for the purposes of capital gains taxation.

15.2.2 Where a Sub-fund issues multiple Share Classes, a Shareholder may convert Shares of one Class for Shares in another Class where they are eligible to hold the other Class. Requests to convert between Share Classes must be submitted using the appropriate form available from the ACD. Such conversions will be executed within three Dealing

Days of receipt of a valid instruction. Requests to convert between Share Classes are undertaken by reference to the respective Share prices of each Class. For interest distributing funds, whose prices are calculated net of income tax, these prices will be "net" prices. The impact of using net prices where the conversion of Shares is to a Class with a lower ACD's annual remuneration (see Appendix 1) is that the Sub-fund's total tax charge will increase and this increase will be borne by all Shareholders in the receiving Share Class. This approach has been agreed with the Depositary subject to the total impact to Shareholders being immaterial. Where the ACD determines at its absolute discretion that Share Class conversions are materially prejudicial to the Shareholders of a Share Class, instructions to convert between Share Classes will only be executed on the Dealing Day following the relevant Sub-fund's XD date. In such circumstances, instructions to convert between Share Classes must be received by the ACD no sooner than ten business days before the Sub-fund's relevant XD date.

15.2.3 Please note that conversions may be subject to a fee. The fee will not exceed an amount equal to the aggregate of the then prevailing redemption charge (if any) in respect of Original Shares and the initial charge (if any) in respect of New Shares and is payable to the ACD.

## 16 Dealing charges

### 16.1 Initial Charge

The ACD may impose a charge on the buying of Shares. This charge is a percentage of the total amount of your investment and is deducted from your investment before Shares are purchased. The current level in relation to the Sub-funds are set out for each Sub-fund in Appendices 1 and 4 and are subject to discounts that the ACD at its absolute discretion may apply from time to time. Increases from the current rates of charge can only be made in accordance with the Regulations and after the ACD has revised the Prospectus to reflect the increased rate.

### 16.2 Redemption Charge

16.2.1 The ACD may make a charge on the cancellation and redemption (including transfer) of Shares. At present, a redemption charge is levied only on the selling of Shares in a Sub-fund which does not have an initial charge on the buying of Shares. Other Shares issued and bought, and persons known to the ACD to have made arrangements for the regular purchase of other Shares while this Prospectus is in force, will not be subject to any redemption charge introduced in the future in respect of those Shares. Currently, those Shares deemed to carry a redemption charge will carry a reducing redemption charge calculated in accordance with the table below. With accumulation shares, where any income is reinvested back into the share price, the valuation when calculating a redemption will include the capital gain associated with this reinvested income. In relation to the imposition of a redemption charge as set out above, where Shares of the class in question have been purchased at different times by a redeeming Shareholder, the Shares to be redeemed shall be

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deemed to be the Shares which incur the least cost to the Shareholder and thereafter the Shares purchased first in time by that Shareholder.

### Redemption charge table

The deduction from the mid value for redemption before the following anniversaries would be:

1 <sup>st</sup> year	4.5%
2 <sup>nd</sup> year	4.0%
3 <sup>rd</sup> year	3.0%
4 <sup>th</sup> year	2.0%
5 <sup>th</sup> year	1.0%
Thereafter	Nil

16.2.2 The ACD may not introduce or increase a redemption charge on Shares unless:

16.2.2.1 the ACD has complied with the Regulations in relation to that introduction or change; and

16.2.2.2 the ACD has revised the Prospectus to reflect the introduction or change and the date of its commencement and has made the revised Prospectus available.

16.2.3 In the event of a change to the rate or method of calculation of a redemption charge, details of the previous rate or method of calculation will be available from the ACD.

### 16.3 Switching Fee

On the switch of Shares of a Sub-fund for Shares of another Sub-fund the Instrument of Incorporation authorises the Company to impose a switching fee. The fee will not exceed an amount equal to the aggregate of the then prevailing redemption charge (if any) in respect of Original Shares and the initial charge (if any) in respect of New Shares and is payable to the ACD.

16.3.1 If the switch is between Sub-funds and would be a large deal for purposes of SDRT (see paragraph 18.3) then applicable further charges may be imposed. Subject to this, the ACD will normally waive the initial charge (if any) in respect of New Shares if a switch is made to the same class of Share within a different Sub-fund.

## 17 Other dealing information

### 17.1 Dilution

17.1.1 The basis on which each Sub-fund's investments are valued for the purpose of calculating the price of Shares as stipulated in the Regulations and the Company's Instrument of Incorporation is summarised in section 24. However, the actual cost of purchasing or selling investments for a Sub-fund may deviate from the mid-market value used in calculating the price of Shares in the Sub-fund due to dealing costs such as broking charges, taxes, and any spread between the buying and selling prices of the underlying investments. These dealing costs can have an adverse effect on the value of the Sub-fund, known as "dilution". The Regulations allow the cost of dilution to be met directly from the Sub-fund's assets or to be recovered from investors on the purchase or redemption of Shares in the

Sub-fund inter alia by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD. The ACD shall comply with rule COLL 6.3.8R in its application of any such dilution adjustment. The ACD's policy is designed to minimise the impact of dilution on any Sub-fund.

17.1.2 The dilution adjustment for each Sub-fund will be calculated by reference to the estimated costs of dealing in the underlying investments of that Sub-fund, including any dealing spreads, commissions and transfer taxes. The need to apply a dilution adjustment will depend on the relative volume of sales (where they are issued) to redemptions (where they are cancelled) of shares. The ACD may apply a dilution adjustment on the issue and redemption of such shares if, in its opinion, the existing shareholders (for sales) or remaining shareholders (for redemptions) might be adversely affected, and if in applying a dilution adjustment, so far as practicable, it is fair to all shareholders and potential shareholders. In specie transfers will not be taken into account when determining any dilution adjustment and any incoming portfolio will be valued on the same basis as the Sub-fund is priced (i.e. offer plus notional dealing charges, mid, or bid less notional dealing charges). When a dilution adjustment is not applied there may be a dilution of the assets of the Sub-fund which may constrain the future growth of that Sub-fund.

17.1.3 The ACD may alter its current dilution adjustment policy by giving shareholders at least 60 days' notice and amending the Prospectus before the change takes effect.

17.1.4 Based on experience, the ACD would typically expect to make a dilution adjustment on most days, and this would ordinarily be of the magnitude shown in the table below. The ACD reserves the right to adjust the price by a lesser amount but will always make such an adjustment in a fair manner solely to reduce dilution and not for the purpose of creating a profit or avoiding a loss for the account of the ACD or an associate. It should be noted that as dilution is related to inflows and outflows of monies and the purchase and sale of investments it is not possible to predict accurately if and when dilution will occur and to what extent.

### Dilution adjustment table

Typical dilution adjustments for the following Sub-funds would be:

M&G Corporate Bond Fund	+0.36% / -0.36%
M&G Dividend Fund	+0.67% / -0.19%
M&G Emerging Markets Bond Fund	+0.46% / -0.45%
M&G European Corporate Bond Fund	+0.23% / -0.23%
M&G European High Yield Bond Fund	+0.38% / -0.36%
M&G Fund of Investment Trust Shares	+0.91% / -0.50%

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M&G Global Government Bond Fund	+0.10% / -0.10%
M&G Recovery Fund	+0.89% / -0.40%
M&G Smaller Companies Fund	+1.00% / -0.52%

Positive dilution adjustment figures indicate a typical increase from mid price when the Sub-fund is experiencing net issues. Negative dilution adjustment figures indicate a typical decrease from mid price when the Sub-fund is experiencing net redemptions. Figures are based on the historic costs of dealing in the underlying investments of the relevant Sub-funds for the twelve months to 31 May 2014, including any spreads, commissions and transfer taxes.

### 17.2 In specie issues and redemptions

At its absolute discretion the ACD may agree or determine that instead of payment in cash to, or from, the Shareholder for Shares in a Sub-fund, the settlement of an issue or redemption transaction may be effected by the transfer of property into or out of the assets of the Company on such terms as the ACD shall decide in consultation with the investment manager and the Depositary. In the case of redemptions, the ACD shall give notice to the Shareholder prior to the redemption proceeds becoming payable of its intention to transfer property to the Shareholder and, if required by the Shareholder, may agree to transfer to the Shareholder the net proceeds of the sale of such property.

The ACD may also offer to sell an investor's property and invest the proceeds by purchasing Shares in the Company, subject to detailed terms and conditions available upon request.

### 17.3 Client Account

Cash may be held for investors in a client account in certain circumstances. Interest is not paid on any such balances.

### 17.4 Excessive Trading

17.4.1 The ACD generally encourages Shareholders to invest in Sub-funds as part of a medium to long-term investment strategy and discourages excessive, short term, or abusive trading practices. Such activities may have a detrimental effect on the Sub-funds and other Shareholders. The ACD has several powers to help ensure that Shareholder interests are protected from such practices. These include:

17.4.1.1 Refusing an application for Shares (see paragraph 13.1.2);

17.4.1.2 Fair Value Pricing (see paragraph 24); and

17.4.1.3 Applying the Dilution Adjustment (see paragraph 17.1).

17.4.2 We monitor shareholder dealing activity and if we identify any behaviour that, in our view, constitutes inappropriate or excessive trading, we may take any of the following steps with the shareholders we believe are responsible:

17.4.2.1 Issue warnings which if ignored may lead to further applications for Shares being refused;

17.4.2.2 Restrict methods of dealing available to particular Shareholders; and/or,

17.4.2.3 Impose a switching fee (see paragraph 16.3).

17.4.3 We may take these steps at any time, without any obligation to provide prior notice and without any liability for any consequence that may arise.

17.4.4 Inappropriate or excessive trading can sometimes be difficult to detect particularly where transactions are placed via a nominee account. The ACD therefore cannot guarantee that its efforts will be successful in eliminating such activities and their detrimental effects.

## 18 Stamp Duty Reserve Tax ('SDRT')

18.1 The stamp duty reserve tax (SDRT) charge on UK unit trusts and open-ended investment companies (OEICs) has been abolished with effect from 30 March 2014. A principal SDRT charge of 0.5% has been retained to be made on the value of non-pro rata in specie redemptions. This is a principal SDRT charge payable by the investor by reference to the value of chargeable securities redeemed in this type of transaction.

## 19 Money laundering

As a result of legislation in force in the United Kingdom to prevent money laundering, firms conducting investment business are responsible for compliance with money laundering regulations. The ACD may verify your identity electronically when you undertake certain transactions. In certain circumstances investors may be asked to provide proof of identity when buying or selling shares. Normally this will not result in any delay in carrying out instructions but, should the ACD request additional information, this may mean that instructions will not be carried out until the information is received. In these circumstances, the ACD may refuse to issue or, redeem Shares, release the proceeds of redemption or carry out such instructions.

## 20 Restrictions on dealing

20.1 The ACD may from time to time impose such restrictions as it may think necessary for the purpose of ensuring that no Shares are acquired or held by any person in breach of the law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory. In this connection, the ACD may, inter alia, reject in its discretion any application for the issue, sale, redemption, cancellation or switch of Shares or require the mandatory redemption of Shares or transfer of Shares to a person qualified to hold them.

20.2 The distribution of this prospectus and the offering of Shares in or to persons resident in or nationals of or citizens of jurisdictions outside the UK or who are nominees of, custodians or trustees for, citizens or nationals of other countries may be affected by the laws of the relevant jurisdictions. Such Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of any Shareholder to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities needing to be observed and payment of any issue, transfer or other taxes or duties due in such jurisdiction. Any such Shareholder will be responsible for any such issue, transfer or other taxes or payments by whomsoever payable and the Company (and any person acting on behalf of it) shall be fully indemnified and held harmless by such

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Shareholder for any such issue, transfer or other taxes or duties as the Company (and any person acting on behalf of it) may be required to pay.

- 20.3 If it comes to the notice of the ACD that any Shares (“affected Shares”) are owned directly or beneficially in breach of any law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory, which would (or would if other Shares were acquired or held in like circumstances) result in the Company incurring any liability to taxation which the Company would not be able to recoup itself or suffering any other adverse consequence (including a requirement to register under any securities or investment or similar laws or governmental regulations of any country or territory) or by virtue of which the Shareholder or Shareholders in question is/are not qualified to hold such Shares or if it reasonably believes this to be the case, the ACD may give notice to the Shareholder(s) of the affected Shares requiring the transfer of such Shares to a person who is qualified or entitled to own them or that a request in writing be given for the redemption of such Shares. If any Shareholder upon whom such a notice is served does not within thirty days after the date of such notice transfer their affected Shares to a person qualified to own them or submit a written request for their redemption to the ACD or establish to the satisfaction of the ACD (whose judgement is final and binding) that they or the beneficial owner are qualified and entitled to own the affected Shares, they shall be deemed upon the expiration of that thirty day period to have given a request in writing for the redemption or cancellation (at the discretion of the ACD) of all the affected Shares pursuant to the Regulations.
- 20.4 A Shareholder who becomes aware that they are holding or own affected Shares shall forthwith, unless they have already received a notice as aforesaid, either transfer all their affected Shares to a person qualified to own them or submit a request in writing to the ACD for the redemption of all their affected Shares.
- 20.5 Where a request in writing is given or deemed to be given for the redemption of affected Shares, such redemption will be effected in the same manner as provided for under the Regulations, if effected at all.

### 21 Suspension of dealings in the Company

- 21.1 The ACD may with the agreement of the Depositary, or must if the Depositary so requires temporarily suspend for a period the issue, sale, cancellation and redemption of Shares or any class of Shares in any or all of the Sub-funds if the ACD or the Depositary is of the opinion that due to exceptional circumstances there is good and sufficient reason to do so having regard to the interests of Shareholders.
- 21.2 The ACD will notify Shareholders as soon as is practicable after the commencement of the suspension, including details of the exceptional circumstances which have led to the suspension, in a clear, fair and not misleading way and giving Shareholders details of how to find further information about the suspensions.
- 21.3 Where such suspension takes place, the ACD will publish, on its website or other general means, sufficient details to keep Shareholders appropriately informed about the suspension, including, if known, its possible duration.
- 21.4 During the suspension none of the obligations in COLL 6.2 (Dealing) will apply but the ACD will comply with as much of COLL 6.3 (Valuation and Pricing) during the period of suspension as is practicable in light of the suspension.

- 21.5 Re-calculation of the Share price for the purpose of sales and purchases will commence on the next relevant valuation point following the ending of the suspension.

### 22 Governing law

All deals in Shares are governed by English law.

### 23 Valuation of the Company

- 23.1 The price of a Share of a particular class in the Company is calculated by reference to the Net Asset Value of the Sub-fund to which it relates and attributable to that class and adjusted for the effect of charges applicable to that class and further adjusted to reduce any dilutive effect of dealing in the Sub-fund (for more detail of dilution adjustment see 15.1). The Net Asset Value per Share of a Sub-fund is currently calculated at 12.00 noon UK time on each Dealing Day.
- 23.2 The ACD may at any time during a Dealing Day carry out an additional valuation if the ACD considers it desirable to do so.

### 24 Calculation of the Net Asset Value

- 24.1 The value of the scheme property of the Company or Sub-fund (as the case may be) shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions.
- 24.2 All the scheme property (including receivables) of the Company (or the Sub-fund) is to be included, subject to the following provisions.
- 24.3 Property which is not cash (or other assets dealt with in paragraph 24.4) or a contingent liability transaction shall be valued as follows and the prices used shall be (subject as follows) the most recent prices which it is practicable to obtain:
- 24.3.1 units or shares in a collective investment scheme:
- 24.3.1.1 if, a single price for buying and selling units is quoted, at the most recent such price; or
- 24.3.1.2 if, separate buying or selling prices are quoted, at the average of the two prices provided the buying price has been reduced by any initial charge included therein and the selling price excludes any exit or redemption charge attributable thereto; or
- 24.3.1.3 if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or no recent price exists or if the most recent price available does not reflect the ACD's best estimate of the value of the units or shares, at a value which, in the opinion of the ACD, is fair and reasonable;
- 24.3.2 exchange-traded derivative contracts:
- 24.3.2.1 if, a single price for buying and selling the exchange-traded derivative contract is quoted, at that price; or
- 24.3.2.2 if, separate buying and selling prices are quoted, at the average of the two prices; or
- 24.3.3 over-the-counter derivative products shall be valued in accordance with the method of valuation as shall have been agreed between the ACD and the Depositary;

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- 24.3.4 any other investment;
- 24.3.4.1 if, a single price for buying and selling the security is quoted, at that price; or
- 24.3.4.2 if, separate buying and selling prices are quoted, the average of those two prices; or
- 24.3.4.3 if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if no price exists or if the most recent price available does not reflect the ACD's best estimate of the value of the securities, at a value which in the opinion of the ACD is fair and reasonable;
- 24.3.5 property other than that described in paragraphs 24.3.1, 24.3.2, 24.3.3 and 24.3.4 above: at a value which, in the opinion of the ACD, represents a fair and reasonable mid-market price.
- 24.4 Cash and amounts held in current, deposit and margin accounts and in other time-related deposits shall normally be valued at their nominal values.
- 24.5 In determining the value of the scheme property, all instructions given to issue or cancel Shares shall be assumed (unless the contrary is shown) to have been carried out and any cash payment made or received and all consequential action required by Regulations or the Instrument shall be assumed (unless the contrary shown to have been taken).
- 24.6 Subject to paragraphs 24.7 and 24.8 below, agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the ACD, their omission will not materially affect the final Net Asset Value amount.
- 24.7 Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under paragraph 24.6.
- 24.8 All agreements are to be included under paragraph 24.7 which are, or ought reasonably to have been, known to the person valuing the property.
- 24.9 An estimated amount for anticipated tax liabilities (on unrealised capital gains where the liabilities have accrued and are payable out of the property of the Scheme; on realised capital gains in respect of previously completed and current accounting periods; and on income where liabilities have accrued) at that point in time including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty, Stamp Duty Reserve Tax and any foreign taxes and duties will be deducted.
- 24.10 An estimated amount for any liabilities payable out of the scheme property and any tax thereon treating periodic items as accruing from day to day will be deducted.
- 24.11 The principal amount of any outstanding borrowing whenever repayable and any accrued but unpaid interest on borrowing will be deducted.
- 24.12 An estimated amount for accrued claims for repayments of tax of whatever nature to the Company which may be recoverable will be added.
- 24.13 Any other credits or amounts due to be paid into the scheme property will be added.
- 24.14 A sum representing any interest or any income accrued due or deemed to have accrued but not received will be added.
- 24.15 The amount of any adjustment deemed necessary by the ACD to ensure that the Net Asset Value is based on the most recent information and is fair to all Shareholders will be added or deducted as appropriate.
- 24.16 Currencies or values in currencies other than a Sub-fund's Valuation Currency shall be converted at the relevant valuation point at a prevailing rate of exchange which is not likely to result in any material prejudice to the interests of Shareholders or potential Shareholders. The Valuation Currency of each Sub-fund is noted in Appendices 1 and 4.
- ### 25 Price per share in each Sub-fund and each class
- The price per Share at which Shares are bought by investors is the sum of the Net Asset Value of a Share adjusted to reduce any dilutive effect of dealing in the Sub-fund (for more detail of dilution adjustment see 17.1) before any initial charge. The price per Share at which Shares are sold by investors is the Net Asset Value per Share adjusted to reduce any dilutive effect of dealing in the Sub-fund (for more detail of dilution adjustment see 17.1) before any applicable redemption charge. In addition, there may, for both purchases and sales, be a charge for SDRT as described in paragraph 18.
- ### 26 Pricing basis
- There shall be a single price for a Share in any Class. The Company deals on a forward pricing basis. A forward price is the price calculated at the next valuation point after the purchase or sale is agreed.
- ### 27 Publication of prices
- (Investors in Euro Share Classes should refer to Appendix 4)**
- The most recent price of Sterling Class A and X Shares appear daily on our web-site at [www.mandg.co.uk](http://www.mandg.co.uk) or can be obtained free from M&G Customer Relations on 0800 390390. The most recent price of Sterling Class I Shares appear on M&G's institutional client website at [www.mandgfunds.co.uk](http://www.mandgfunds.co.uk). The most recent price of Sterling Class C shares appear on M&G's intranet site.
- ### 28 Risk factors
- Potential investors should consider the following risk factors before investing in the Company.
- 28.1 **General**
- The investments of the Sub-fund are subject to normal market fluctuations and other risks inherent in investing in shares, bonds and other stock market related assets. There can be no assurance that any appreciation in value of investments will occur or that the investment objective will actually be achieved. The value of investments and the income from them will fall as well as rise and investors may not recoup the original the amount they invested. Past performance is not a guide to future performance.
- 28.2 **Liabilities of the Company**
- Shareholders are not liable for the debts of the Company. A Shareholder is not liable to make any further payment to the Company after he has paid in full for the purchase of Shares.

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## M&G Investment Funds (3)

Whilst the Instrument of Incorporation provides for segregated liability between the Sub-funds, the concept of segregated liability may not be recognised and given effect by a court in certain contexts including where relevant contractual documents involving the Sub-funds are not construed in a manner to provide segregated liability. Where claims are brought by local creditors in foreign courts or under foreign contracts, and the liability relates to one Sub-fund which is unable to discharge its liability, it is not clear whether a foreign court would give effect to the segregated liability contained in the Instrument of Incorporation. Therefore, it is not possible to be certain that the assets of a Sub-fund will always be completely insulated from the liabilities of another Sub-fund of the Company in every circumstance.

### 28.3 Suspension of dealing in shares

Investors are reminded that in exceptional circumstances their right to sell or redeem Shares may be temporarily suspended.

### 28.4 Cancellation Risks

When cancellation rights are applicable and are exercised, the full amount invested may not be returned if the price falls before we are informed of your intention to cancel.

### 28.5 Inflation

A change in the rate of inflation will affect the real value of your investment.

### 28.6 Taxation

The current tax regime applicable to UK investors in collective investment schemes and the UK schemes themselves is not guaranteed and may be subject to change.

A risk exists that the tax authorities in countries with which the United Kingdom has double tax treaties may, where relevant, not be prepared to permit issuers in their jurisdictions to pay income to the Company without the imposition of withholding tax in that foreign jurisdiction. Any such withholding tax may impinge upon the return payable to investors.

The tax treatment of the Company may be affected by the tax profiles of investors and relevant tax treaties in place.

### 28.7 Risks associated with Hedged Share Classes

Gains or losses arising from currency hedging transactions are borne by the Shareholders of the respective hedged Share Classes. Given that there is no segregation of liabilities between Share Classes, there is a risk that, under certain circumstances, the settlement of currency hedging transactions or the requirement for collateral (if such activity is collateralised) in relation to one Share Class could have an adverse impact on the net asset value of the other Share Classes in issue.

The Investment Manager will undertake hedging transactions specifically to reduce the effect of exchange rate fluctuations between the currency of the hedge share classes and the Valuation Currency or Reference Currency of Sub-fund (replication). The hedging strategy employed will not completely eliminate the exposure of the hedged Share Classes to currency movements and no assurance can be given that the hedging objective will be achieved. Investors should be aware that the hedging strategy may substantially limit Shareholders of the relevant hedged Share Class from benefiting if the hedged Share Class currency falls against the Valuation Currency or Reference Currency. Notwithstanding the hedging of the Share Classes described above, Shareholders in those Share Classes may still be exposed to an element of currency exchange rate risk.

### 28.8 Counterparty Risk

Whilst the Manager will place transactions, hold positions (including OTC derivatives) and deposit cash with a range of counterparties, there is a risk that a counterparty may default on its obligations or become insolvent. In certain market conditions, the ability to mitigate risk by trading with multiple counterparties may be restricted or indeed it may be beneficial for the Manager to trade through a single counterparty in such circumstances. In very rare cases and due to the illiquid nature of the instrument being traded, it may become necessary to trade with a non-approved broker (i.e. a broker who is not on the Manager's permanent list of approved counterparties) as the only way in which the trade can be completed. It should be noted that counterparty risk increases in markets and transaction types where delivery versus payment is not the standard method of settlement, in particular for primary market activity and/or in normal trading in emerging markets..

### 28.9 Risks affecting specific Sub-funds

#### 28.9.1 Currency Exchange Rates

Currency fluctuations will affect the value of each Share Class depending on the extent to which a Sub-fund holds assets denominated in a currency that differs from that of the shares held by the investor. This is because such assets are generally bought and sold in the local currency of the country in which they are listed and their values must be converted back into the Valuation Currency of the Sub-fund and the currency of each Share Class when calculating its net asset value.

This risk applies to M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund, M&G Fund of Investment Trust Shares, M&G Global Government Bond Fund and M&G Recovery Fund.

#### 28.9.2 Emerging Markets

Where the Sub-fund invests substantially in securities listed or traded in emerging markets, the volatility of the net asset value of the Sub-fund may be more volatile than a fund that invests in the securities of companies in developed countries. Securities markets in these countries are generally not as large as those in more developed economies and have substantially less dealing volume, potentially resulting in a lack of liquidity and higher price volatility.

Substantial limitations may exist in certain countries with respect to a fund's ability to repatriate investment income, capital or the proceeds of sale of securities by foreign investors. The Sub-fund could be adversely affected by delays in, or a refusal to grant any required governmental approval for repatriation of capital, as well as by restrictions on investment that may apply from time to time.

This risk applies to M&G Emerging Markets Bond Fund and M&G Global Government Bond Fund.

#### 28.9.3 Risks affecting fixed income investments

This risk applies to M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European

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High Yield Bond Fund, and M&G Global Government Bond Fund.

### 28.9.3.1 Interest rate risk

Interest rate fluctuations will affect the capital and income value of investments within Sub-funds that invest substantially in fixed income investments. This effect will be more apparent if the Sub-fund holds a significant proportion of its portfolio in long dated securities.

### 28.9.3.2 Credit risk

The value of the Sub-fund will fall in the event of the default or perceived increased credit risk of an issuer. This is because the capital and income value and liquidity of the investment is likely to decrease. AAA rated government and corporate bonds have a relatively low risk of default compared to non-investment grade bonds. However, the ratings are subject to change and they may be downgraded. The lower the rating the higher the risk of default.

### 28.9.3.3 Zero or Negative yield

The costs of using derivatives to implement a short position within a Sub-fund, for example short positions in currency or Government bonds, may result in a zero or negative yield on the portfolio. In such circumstances the Sub-fund may not make any distributions and any shortfall will be met from capital. This risk applies to M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund, M&G Corporate Bond Fund and M&G Global Government Bond Fund.

## 28.9.4 Investment in Derivatives

In relation to M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund, and M&G Global Government Bond Fund: the Sub-funds do undertake transactions in derivatives and forward transactions, both on exchange and over the counter (OTC), for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging.

In relation to M&G Dividend Fund, M&G Fund of Investment Trust Shares, M&G Recovery Fund and M&G Smaller Companies Fund: the Sub-funds may enter into transactions for the purposes of efficient portfolio management ("EPM"), including hedging transactions and temporary short term tactical asset allocation e.g. for the purposes of preserving the value of an asset or assets of the Sub-fund and liquidity management purposes (i.e. to enable the Sub-fund to be adequately invested).

The Sub-fund may enter into transactions for the purposes of efficient portfolio management ('EPM'), including hedging transactions and temporary short term tactical asset allocation, e.g. for the

purposes of preserving the value of an asset or assets of the Sub-fund and liquidity management purposes,(i.e. to enable the Sub-fund to be adequately invested).

Such transactions may include, but are not limited to, currency forwards, futures, credit default swaps, total return swaps, dividend swaps, asset swaps, options and contracts for differences.

A number of risks arise in relation to derivative transactions:

### 28.9.4.1 Correlation (Basis Risk)

The risk of loss due to divergence between two rates or prices. This applies particularly where an underlying position is hedged through derivative contracts which are not the same as (but may be similar to) the underlying position.

### 28.9.4.2 Valuation

The risk of differing valuations of derivatives arising out of different permitted valuation methods. Many derivatives, in particular non-exchange traded ("OTC") derivatives, are complex and often valued subjectively and the valuation can only be provided by a limited number of market professionals which are often also acting as the counterparty to the transaction to be valued. Inaccurate valuations can result in inaccurate recognition of counterparty exposure.

### 28.9.4.3 Liquidity

Liquidity risk exists when a particular instrument is difficult to purchase or sell. Derivative transactions that are particularly large or traded off market (i.e. over the counter) may be less liquid and therefore not readily adjusted or closed out.

### 28.9.4.4 Counterparty

Certain derivative types may require the establishment of long term exposures to market counterparties, accordingly there is a risk that the counterparty may default on its obligations or become insolvent. Where those positions are collateralised, risk may remain between both the mark to market and the receipt of the corresponding collateral as well as between the final settlement of the contract and the return of any collateral amount, this risk is referred to as daylight risk. In certain circumstances, the physical collateral returned may differ from the original collateral posted. This may impact the future returns of the Sub-fund.

### 28.9.4.5 Delivery

The Sub-fund's ability to settle derivative contracts on their maturity may be affected by the illiquidity of the underlying

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## M&G Investment Funds (3)

asset. In such circumstances, there is a risk of loss to the Sub-fund.

**It is anticipated that the use of these derivative instruments will not have a material impact on the risk profile or volatility of the Sub-funds as measured against equivalent Sub-funds where investment in derivatives is not permitted .**

### 28.9.4.6 Short Sales

The Sub-fund may take short positions through the use of derivatives which are not backed by equivalent physical assets. Short positions reflect an investment view that the price of the underlying asset is expected to fall in value. Accordingly, if the view is incorrect and the asset rises in value, the short position could involve greater risk due to the theoretical possibility of an unlimited rise in their market price. This risk applies to M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund, and M&G Global Government Bond Fund.

### 28.9.4.7 Limited Credit Leverage

In relation to M&G Emerging Markets Bond Fund: Derivatives may be used in a limited way to generate exposure to investments exceeding the net asset value of the Sub-fund, thereby exposing the Sub-fund to a higher degree of risk. As a result of increased market exposure, the size of any positive or negative movement in markets will have a relatively larger effect on the net asset value of the Sub-fund. The additional exposure will however be limited to such an extent as to not materially increase the overall volatility of the net asset value.

### 28.9.4.8 Currency Strategies

Sub-funds which use currency management strategies may have substantially altered exposures to currency exchange rates. Should these currencies not perform as the fund manager expects, the strategy may have a negative effect on performance. This risk applies to M&G Emerging Markets Bond Fund and M&G Global Government Bond Fund.

### 28.9.5 Liquidity Risk

The Sub-fund's investments may be subject to liquidity constraints which means that Securities may trade infrequently and in small volumes. Normally liquid securities may also be subject to periods of significantly lower liquidity in difficult market conditions. As a result, changes in the value of investments may be more unpredictable and in certain cases, it may be difficult to deal a security at

the last market price quoted or at a value considered to be fair.

This risk applies to M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund, M&G Fund of Investment Trust Shares, M&G Global Government Bond Fund, M&G Recovery Fund and M&G Smaller Companies Fund.

### 28.9.6 Sub-funds buying dividends

In respect of the M&G Dividend Fund, on occasions, the ACD may make an investment with a view to securing a particular dividend to enhance distributable income. This can act as a constraint on short-term capital performance.

### 28.9.7 Funds investing in specific sectors, countries, regions

Funds investing in specific countries, regions, sectors and asset classes may be volatile and carry a higher risk to capital than funds investing in a broader investment universe. This is because the former are more vulnerable to market sentiment specific to the region/sector/ asset class in which they invest compared with the latter which may be invested across several regions, sectors and asset classes. This risk applies to the M&G Corporate Bond Fund, M&G Dividend Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund, M&G Fund of Investment Trust Shares, M&G Recovery Fund and M&G Smaller Companies Fund.

### 28.9.8 Concentrated Portfolios

Active equity funds managed with an unconstrained approach will typically have a smaller number of holdings than funds more closely aligned with the benchmark index. When funds are concentrated in a small number of holdings the funds' returns may be more volatile and/or influenced materially by a small number of large holdings. This risk applies to M&G Dividend Fund, M&G Fund of Investment Trust Shares, M&G Recovery Fund and M&G Smaller Companies Fund.

### 28.9.9 Eurozone

There is a risk that one or more countries will exit the Euro and re-establish their own currencies. In light of this uncertainty or in the event that this does occur, there is an increased risk of volatility in asset values, liquidity and default risk. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the Sub-fund. In the event that it is not possible to carry out an accurate valuation of the Sub-fund, dealing may be temporarily suspended. This risk applies to M&G Corporate Bond Fund, M&G Dividend Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund, M&G Fund of Investment Trust Shares and M&G Global Government Bond Fund.

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### 28.9.10 Exposure to Euro

In relation to M&G Emerging Markets Bond Fund: the Sub-fund invests/or can invest in securities in denominated Euros. Economic uncertainties facing the Eurozone mean that there is an increased risk of volatility in asset values, liquidity and default risk. In addition there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the Sub-fund. In the event that it is not possible to carry out an accurate valuation of the Sub-fund, dealing may be temporarily suspended.

### The following risks apply to M&G Dividend Fund only

### 28.9.11 Charges to Capital

The Sub-fund's charges and expenses are taken from capital, in whole or in part, and as a result the capital growth will be constrained.

### 28.9.12 Regular Redemption Facility

Shareholders using the Regular Redemption Facility should note that such redemptions are treated as disposals for the purposes of Capital Gains Tax. Shareholders should also note that where the annual percentage growth in the value of their holding is less than the annual percentage value being redeemed using the Regular Redemption Facility, they will in effect be eroding the capital value of their original investment.

## 29 Fees and expenses

### 29.1 General

29.1.1 The fees, costs and expenses relating to the authorisation and incorporation and establishment of the Company, the offer of Shares, the preparation and printing of this Prospectus and the fees of the professional advisers to the Company in connection with the offer will be borne by the ACD.

29.1.2 The direct establishment costs of each Sub-fund formed or share class created after this Prospectus is superseded may be borne by the relevant Sub-fund or by the ACD at its discretion.

29.1.3 The Company may pay out of the property of the Company charges and expenses incurred by the Company, which will include the following expenses:

29.1.3.1 the fees and expenses payable to the ACD and to the Depositary and, where not met by the ACD, the fees of the investment manager;

29.1.3.2 broker's commission, fiscal charges (including stamp duty and / or Stamp Duty Reserve Tax) and other disbursements which are necessarily incurred in effecting transactions for the Sub-funds and are normally shown in contract notes, confirmation notes and difference accounts as appropriate;

29.1.3.3 any fees, expenses or disbursements of any legal or other professional adviser of the Company;

29.1.3.4 any costs incurred in respect of meetings of Shareholders convened on a requisition by Shareholders but not those

convened by the ACD or an associate of the ACD;

29.1.3.5 liabilities on unitisation, amalgamation or reconstruction including certain liabilities arising after transfer of property to the Sub-funds in consideration for the issue of Shares as more fully detailed in the Regulations;

29.1.3.6 interest on borrowing and charges incurred in effecting or terminating such borrowing or in negotiating or varying the terms of such borrowing;

29.1.3.7 taxation and duties payable in respect of the property of the Sub-funds or of the issue or redemption of Shares, including SDRT;

29.1.3.8 the audit fees of the Auditor (including value added tax) and any expenses of the Auditor;

29.1.3.9 the fees of the FCA in accordance with the FCA's Fee Manual, together with any corresponding periodic fees of any regulatory authority in a country or territory outside the United Kingdom in which Shares in the Company are or may be marketed;

29.1.3.10 the Depositary will also be reimbursed out of the property of the Company for expenses detailed in paragraph 32.2.

29.1.3.11 any value added or similar tax relating to any charge or expense set out herein.

29.1.4 Expenses are allocated between capital and income in accordance with the Regulations. The ACD and the Depositary have agreed that the ACD's remuneration as Administrator, the Depositary's fees, custody charges, audit fees and the fees of the FCA or other regulatory authority (plus any value added tax thereon where applicable) are charged against the income of each Sub-fund with the exception of the M&G Dividend Fund, in respect of which these fees are charged against capital.

29.1.5 In certain circumstances, the Investment Manager may participate in a commission sharing arrangement. This is a term given to the system of commission payments awarded to participating brokers from the Investment Manager which are then used to pay other third party research providers for the research services provided to the Investment Manager. The participating brokers agree to "give up" commission payments (of typically 60-70% per trade) to the research provider. This arrangement is founded on the basis that the participating broker keeps the balance of the commission for the execution service.

## 30 Charges payable to the ACD

30.1 In payment for carrying out its duties and responsibilities the ACD is entitled to deduct an annual fee from each share class in each Sub-fund. The charge is based on a percentage per annum of the Net Asset Value of the Sub-fund attributable to each share class, calculated on a mid-market basis, at the rates set out in Appendices 1 and 4.

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30.2 The annual fee accrues daily and is calculated on the daily Net Asset Value and payable fortnightly in arrears. The current annual fees for the share classes of each Sub-fund are set out in Appendices 1 and 4.

30.3 Where a Sub-fund invests in the units or shares of another collective investment scheme managed by the ACD, directly or by delegation, or an associate (this includes companies with which the ACD is linked by common management or control, or by a direct or indirect holding of more than 10% of the capital or voting rights), the ACD will reduce its annual remuneration to the extent that an equivalent charge has been borne by the underlying funds. Such underlying funds will waive any initial or redemption charges which may otherwise apply.

30.4 The ACD is also entitled to reimbursement of all reasonable, properly vouched, out of pocket expenses incurred in the performance of its duties, including stamp duty and stamp duty reserve tax on transactions in Shares.

30.5 Where the investment objective of a Sub-fund is to treat the generation of income as a higher priority than capital growth, or the generation of income and capital growth have equal priority, all or part of the ACD's fee may be charged against capital instead of against income, subject to the approval of the Depositary. This treatment of the ACD's fee may increase the amount of income available for distribution to Shareholders in the Sub-fund concerned, but may constrain capital growth. In respect of M&G Dividend Fund, the ACD and Depositary have agreed that the ACD's fee is charged against the Sub-fund's capital property. For all other Sub-funds, the ACD's fee is charged against their income property.

30.6 If a share class's expenses in any period exceed the income the ACD may take that excess from the capital property attributable to that share class.

30.7 The ACD may introduce a new category of remuneration for its services or increase the current rate or amount of its remuneration payable out of the scheme property of the Company or the initial charge in accordance with the Regulations and once the ACD has made available a revised Prospectus reflecting the introduction or new rate and the date of its commencement.

30.8 The ACD is entitled to charge fees for administrative and registration services to the Company at the rates set out in Appendices 1 and 4 (plus any Value Added Tax thereon where applicable).

30.9 The ACD is entitled to charge a fee for currency share class hedging services. The fee accrues daily and is calculated on the daily Net Asset Value of the Share Class and is payable fortnightly in arrears. The fee is charged at the variable rate set out in Appendix 4 (plus any value added tax thereon where applicable). It is not possible to quote a more specific rate as the exact rate will vary depending upon the total cost of all Share Class hedging activities across the entire range of OEICs managed by M&G Securities Limited.

### 31 Investment Manager's fees

The investment manager's fees and expenses (plus value added tax thereon where applicable) will be paid by the ACD out of its remuneration under the ACD Agreement.

### 32 Depositary's fee, charges and expenses

32.1 The Depositary receives for its own account a periodic fee payable out of the property attributable to each Sub-fund, with the property of each Sub-fund being valued and such remuneration accruing and being paid on the same basis as the

ACD's periodic charge. The rate of the periodic fee is agreed between the ACD and the Depositary. The charge is calculated on a sliding scale for each Sub-fund on the following basis:

0.0075 % per annum of the first £150 million of the Scheme Property,

0.005% per annum of the next £500 million of the Scheme Property,

0.0025 % per annum of the balance.

These rates can be varied from time to time in accordance with the Regulations.

The first accrual will take place in respect of the period beginning on the day on which the first valuation of a Sub-fund is made and ending on the last business day prior to the commencement of the next fortnightly accrual period.

32.2 In addition to the periodic fee referred to above, the Depositary shall also be entitled to be paid transaction and custody charges in relation to transaction handling and safekeeping of the Scheme Property as follows:

Item	Range
Transaction Charges	£4 to £75.
Custody Charges	0.00005% to 0.40% per annum.

These charges vary from country to country depending on the markets and the type of transaction involved. Transaction charges accrue at the time the transactions are effected and are payable as soon as is reasonably practicable, and in any event not later than the last business day of the month when such charges arose or as otherwise agreed between the Depositary and the ACD. Custody charges accrue and are payable as agreed from time to time by the ACD and the Depositary.

32.3 Where relevant, the Depositary may make a charge for its services in relation to: distributions, the provision of banking services, holding money on deposit, lending money, or engaging in stock lending, derivative or unsecured loan transactions, in relation to a Sub-fund and may purchase or sell or deal in the purchase or sale of Scheme Property, provided always that the services concerned and any such dealing are in accordance with the provisions of the COLL Sourcebook.

32.4 The Depositary will also be entitled to payment and reimbursement of all costs, liabilities and expenses properly incurred in the performance of, or arranging the performance of, functions conferred on it by the Instrument of Incorporation, the COLL Sourcebook or by the general law.

32.5 On a winding up of a Sub-fund or the redemption of a Class of Shares, the Depositary will be entitled to its pro rata fees, charges and expenses to the date of winding up or the redemption (as appropriate) and any additional expenses necessarily realised in settling or receiving any outstanding obligations.

Any value added tax on any fees, charges or expenses payable to the Depositary will be added to such fees, charges or expenses.

32.6 each such case such payments, expenses and disbursements may be payable to any person (including the ACD or any associate or nominee of the Depositary or of the ACD) who has had the relevant duty delegated to it pursuant to the COLL Sourcebook by the Depositary.

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32.7 It is not currently proposed to seek a listing for the Shares on any stock exchange, but if a listing is sought in the future the fees connected with the listing will be payable by the Company;

32.8 Expenses are allocated between capital and income in accordance with the Regulations.

### 33 Stock lending

33.1 The Company or the Depositary at the request of the Company, may enter into certain stocklending arrangements in respect of the Company or a Sub-fund. The Company or the Depositary delivers securities which are the subject of the stocklending arrangement in return for an agreement that securities of the same kind and amount should be redelivered to the Company or the Depositary at a later date. The Company or the Depositary at the time of delivery receives collateral to cover the risk of the future redelivery not being completed. There is no limit on the value of the property of the Company which may be the subject of stocklending arrangements.

33.2 Stocklending arrangements must be an arrangement of the kind described in Section 263B of the Taxation of Chargeable Gains Act 1992. The arrangements must also comply with the requirements of the Regulations.

### 34 Allocation of fees and expenses between Sub-funds

All the above fees, duties and charges (other than those borne by the ACD) will be charged to the Sub-fund in respect of which they were incurred but where an expense is not considered to be attributable to any one Sub-fund, the expense will normally be allocated to all Sub-funds pro rata to the value of the Net Assets of the Sub-funds, although the ACD has discretion to allocate these fees and expenses in a manner which it considers fair to Shareholders generally.

### 35 Shareholder meetings and voting rights

#### 35.1 Annual General Meeting

In accordance with the provisions of the Open-Ended Investment Companies (Amendment) Regulations 2005, the Company has elected not to hold annual general meetings.

#### 35.2 Requisitions of Meetings

35.2.1 The ACD or the Depositary may requisition a general meeting at any time.

35.2.2 Shareholders may also requisition a general meeting of the Company. A requisition by Shareholders must state the objects of the meeting, be dated, be signed by Shareholders who, at the date of the requisition, are registered as holding not less than one-tenth in value of all Shares then in issue and the requisition must be deposited at the head office of the Company. The ACD must convene a general meeting no later than eight weeks after receipt of such requisition.

#### 35.3 Notice and Quorum

Shareholders will receive at least 14 days notice of a Shareholders' meeting (other than an adjourned meeting where a shorter period of notice can apply) and are entitled to be counted in the quorum and vote at such meeting either in person or by proxy. If after a reasonable time from the time set for an adjourned meeting there are not two Shareholders present in person or by proxy, the quorum for the adjourned meeting shall be one person entitled to be counted in a quorum and present at the meeting. Notices of meetings and

adjourned meetings will normally be given in writing to the Shareholder's registered addresses (or, at the discretion of the ACD, such other address which we may hold for the purposes of correspondence).

#### 35.4 Voting Rights

35.4.1 At a meeting of Shareholders, on a show of hands every Shareholder who (being an individual) is present in person or (being a corporation) is present by its representative properly authorised in that regard, has one vote.

35.4.2 On a poll vote, a Shareholder may vote either in person or by proxy. The voting rights attaching to each Share are such proportion of the voting rights attaching to all the Shares in issue that the price of the Share bears to the aggregate price(s) of all the Shares in issue as at a cut-off date selected by the ACD which is a reasonable time before the notice of meeting is deemed to have been served.

35.4.3 A Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

35.4.4 Except where the Regulations or the Instrument of Incorporation of the Company require an extraordinary resolution (which needs 75% of the votes cast at the meeting to be in favour for the resolution to be passed) any resolution required will be passed by a simple majority of the votes validly cast for and against the resolution.

35.4.5 The ACD may not be counted in the quorum for a meeting and neither the ACD nor any associate (as defined in the Regulations) of the ACD is entitled to vote at any meeting of the Company except in respect of Shares which the ACD or associate holds on behalf of or jointly with a person who, if the registered Shareholder, would be entitled to vote and from whom the ACD or associate has received voting instructions.

35.4.6 Shareholders' in this context of this paragraph 34 means Shareholders as at a cut-off date selected by the ACD which is a reasonable time before the notice of the relevant meeting was deemed to have been served but excludes holders of Shares who are known to the ACD not to be Shareholders at the time of the meeting.

35.4.7 Investors in Euro, or Sterling where available, Share Classes whose holdings are registered through M&G International Investments Nominees Limited will be offered a vote at general meetings when M&G International Investments Limited considers, at its sole discretion, that the investors' interests may be materially affected.

#### 35.5 Class and Sub-fund Meetings

The above provisions, unless the context otherwise requires, apply to class meetings and meetings of Sub-funds as they apply to general meetings of Shareholders.

#### 35.6 Variation of Class Rights

The rights attached to a class may not be varied unless done so pursuant to the notification requirements of COLL 4.3R.

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### 36 Taxation

#### 36.1 General

The information given under this heading does not constitute legal or tax advice and prospective investors should consult their own professional advisers about the implications of subscribing for, buying, holding, exchanging, selling or otherwise disposing of Shares under the laws of the jurisdiction in which they may be subject to tax.

#### 36.2 Taxation of the Company

##### 36.2.1 Income

Each Sub-fund will be liable to corporation tax on its taxable income less expenses at the lower rate of income tax (currently 20%).

##### 36.2.2 Capital gains

Capital gains accruing to a Sub-fund will be exempt from UK tax.

#### 36.3 Distributions

Sub-funds with over 60% invested in qualifying assets (broadly interest paying) throughout the relevant distribution period can elect to make interest distributions. It is the ACD's current intention that the M&G Corporate Bond Fund, the M&G Emerging Markets Bond Fund, the M&G European Corporate Bond Fund, the M&G European High Yield Bond Fund, and the M&G Global Government Bond Fund will be managed in such a way that they will be able to make interest distributions. In all other cases they will pay dividend distributions.

#### 36.4 Taxation of the investor

##### 36.4.1 Dividend distributions - UK resident individual shareholders

The distributions paid out or accumulated are dividends which carry a tax credit at the rate of 10% of the gross income. Individual shareholders whose income is within the basic rate band will have no further tax to pay. Higher rate taxpayers can set the tax credit against their tax liability, which will be charged at a rate of 32.5% on dividend income. For additional rate taxpayers the tax credit can be set against their tax liability, which will be charged at a rate of 37.5% on dividend income. For non taxpayers, none of the tax credit is refundable. (42.5% will apply to the new 50% tax rate). The distribution and associated tax credit should be entered separately on income tax returns. For non taxpayers, none of the tax credit is refundable.

##### 36.4.2 Dividend distributions – UK resident corporate shareholders

Distributions will be divided into that part which relates to UK dividend income of the Fund, and that part which relates to other income. The part relating to UK dividend income is not taxable. The tax credit received in respect of it cannot be reclaimed. The other part is taxable as if it were an annual payment and is subject to corporation tax. The taxable part of the distribution is received net of an income tax deduction of 20% which can be offset against a shareholder's liability to corporation tax and may be recoverable. The tax voucher will show the ratio between the part relating to UK dividend income (franked investment income) and the part relating to taxable annual payments and

also shows, in terms of a pence per share rate, the tax which can be recovered.

##### 36.4.3 Interest distributions

These are paid after deduction of income tax at the rate of 20%. The tax deducted will be creditable against an investor's liability to UK tax on interest distributions. Individuals paying UK tax at 20% will not be subject to further taxation; however, higher rate taxpayers will be liable to pay further UK tax at their marginal rate. Certain non-taxpayers and UK resident corporate Shareholders should be able to reclaim from HM Revenue & Customs the 20% tax deducted. Certain categories of Shareholder may receive interest distributions gross, if they can demonstrate to the satisfaction of the ACD that they are eligible with reference to section 930 of the Income Tax Act 2007 or Regulation 26 of the Authorised Investment Funds (Tax) Regulations 2006. The ACD will accept a completed Declaration of Eligibility for Gross Interest Distributions Form, or if appropriate, another HMRC form (Form 105 typically in the case of individuals), signed by persons authorised to sign on behalf of the Shareholder declaring to the ACD that they meet the necessary criteria as described above to be entitled to gross distributions.

UK resident corporate Shareholders should note that where they hold a fund which makes interest distributions, gains will be subject to loan relationship rules. Where a gross payment is made and the investor holds Accumulation shares, we intend to use any element of reclaimable tax to purchase further Accumulation shares in that Sub-fund. If we do so we will waive any initial charge due to us on such re-investment. These re-investments will be made fourteen days before the relevant published income allocation date.

##### 36.4.4 Capital gains

Profits arising on disposal of shares are subject to capital gains tax. However, if the total gains from all sources realised by an individual share holder in a tax year, after deducting allowable losses, are less than the annual exemption, there is no capital gains tax to apply. Where income equalisation applies (see below), the buying price of Shares includes accrued income which is repaid to the investor with the first allocation of income following the purchase. This repayment is deemed to be a repayment of capital and is therefore made without deduction of tax but must be deducted from the investor's base cost of the relevant Shares for purposes of calculating any liability to capital gains tax.

36.4.5 The above statements are only intended as a general summary of UK tax law and practice as at the date of this Prospectus and may change in the future. Any investor who is in any doubt as to his or her UK tax position in relation to the Company should consult a UK professional adviser.

### 37 Income equalisation

37.1 Income equalisation will be applied to Shares issued by the Company.

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## M&G Investment Funds (3)

- 37.2 Part of the purchase price of a Share reflects the relevant share of accrued income received or to be received by the Company. This capital sum is returned to a Shareholder with the first allocation of income in respect of a Share issued during the relevant accounting period.
- 37.3 The amount of income equalisation is calculated by dividing the aggregate of the amounts of income included in the price of Shares issued to or bought by Shareholders in an annual or interim accounting period (see paragraph 39.2.1) by the number of those Shares and applying the resultant average to each of the Shares in question.
- ### 38 Winding up of the Company or a Sub-fund of the Company
- 38.1 The Company shall not be wound up except as an unregistered company under Part V of the Insolvency Act 1986 or under the Regulations. A Sub-fund may only be wound up under the Regulations.
- 38.2 Where the Company or a Sub-fund is to be wound up under the Regulations, such winding up may only be commenced following approval by the FCA. The FCA may only give such approval if the ACD provides a statement (following an investigation into the affairs of the Company) either that the Company will be able to meet its liabilities within 12 months of the date of the statement or that the Company will be unable to do so.
- 38.3 The Company or a Sub-fund may be wound up under the Regulations if:
- 38.3.1 an extraordinary resolution to that effect is passed by Shareholders; or
- 38.3.2 the period (if any) fixed for the duration of the Company or a particular Sub-fund by the Instrument of Incorporation expires, or the event (if any) occurs on the occurrence of which the Instrument of Incorporation provides that the Company or a particular Sub-fund is to be wound up (for example, if the share capital of the Company is below its prescribed minimum or (in relation to any Sub-fund) the Net Asset Value of the Sub-fund is less than £10,000,000, or if a change in the laws or regulations of any country means that, in the ACD's opinion, it is desirable to terminate the Sub-fund); or
- 38.3.3 on the date of effect stated in any agreement by the FCA to a request by the ACD for the revocation of the authorisation order in respect of the Company or the Sub-fund.
- 38.4 On the occurrence of any of the above:
- 38.4.1 Regulations 6.2, 6.3 and 5 relating to Dealing, Valuation and Pricing and Investment and Borrowing will cease to apply to the Company or the Sub-fund;
- 38.4.2 the Company will cease to issue and cancel Shares in the Company or the Sub-fund and the ACD shall cease to sell or redeem Shares or arrange for the Company to issue or cancel them for the Company or the Sub-fund;
- 38.4.3 no transfer of a Share shall be registered and no other change to the register shall be made without the sanction of the ACD;
- 38.4.4 where the Company is being wound up, the Company shall cease to carry on its business except in so far as it is beneficial for the winding up of the Company;
- 38.4.5 the corporate status and powers of the Company and, subject to the provisions of Clauses 38.4.1 and 38.4.2 above, the powers of the ACD shall remain until the Company is dissolved.
- 38.5 The ACD shall, as soon as practicable after the Company or the Sub-fund falls to be wound up, realise the assets and meet the liabilities of the Company or the Sub-fund and, after paying out or retaining adequate provision for all liabilities properly payable and retaining provision for the costs of winding up, arrange for the Depository to make one or more interim distributions out of the proceeds to Shareholders proportionately to their rights to participate in the scheme property of the Company or the Sub-fund. When the ACD has caused all of the scheme property to be realised and all of the liabilities of the Company or the Sub-fund to be realised, the ACD shall arrange for the Depository also to make a final distribution to Shareholders as at (or prior to) the date on which the final account is sent to Shareholders of any balance remaining, if applicable, in proportion to their holdings in the Company or the Sub-fund.
- 38.6 On completion of a winding up of the Company, the Company will be dissolved and any money which is legitimately the property of the Company (including unclaimed distributions) and standing to the account of the Company, will be paid into court within one month of dissolution.
- 38.7 Following the completion of the winding up of the Company or the Sub-fund, the ACD shall provide written confirmation to the Registrar of Companies and shall notify the FCA that it has done so.
- 38.8 Following the completion of a winding up of either the Company or a Sub-fund, the ACD must prepare a final account showing how the winding up took place and how the scheme property was distributed. The auditor of the Company shall make a report in respect of the final account stating their opinion as to whether the final account has been properly prepared. This final account and the auditor's report must be sent to the FCA, to each Shareholder and, in the case of the winding up of the Company, to the Registrar of Companies within two months of the termination of the winding up.
- 38.9 As the Company is an umbrella company, any liabilities attributable or allocated to a Sub-fund under the Regulations shall be met out of the scheme property attributable or allocated to that Sub-fund.
- 38.10 Any assets and liabilities, expenses, costs and charges not attributable to a particular Sub-fund may be allocated by the Manager in a manner which it believes is fair to the Shareholders generally. This will normally be pro-rata to the Net Asset Value of the relevant Sub-funds.
- 38.11 Shareholders in a particular Sub-fund are not liable for the debts of the Company or any Sub-fund in the Company. A Shareholder is not liable to make any further payment to the Sub-fund after he has paid in full for the purchase of Shares.
- ### 39 General Information
- #### 39.1 Accounting Periods
- The accounting period of the Company ends each year on 30 June (the accounting reference date). The half-yearly accounting period ends each year on 31 December.
- #### 39.2 Income Allocations
- 39.2.1 Allocations of income are made in respect of the income available for allocation in each annual

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## M&G Investment Funds (3)

- accounting period and, for certain Sub-funds, each interim accounting period (see Appendices 1 and 4).
- 39.2.2 Distributions of income for each Sub-fund are paid on or before the annual income allocation date of 31 October and where applicable on or before one or more of the interim allocation dates of 31 January, 30 April and 31 July in each year.
- 39.2.3 If a distribution remains unclaimed for a period of six years after it has become due, it will be forfeited and will revert to the Company.
- 39.2.4 The amount available for allocation in any accounting period is calculated by taking the aggregate of the income received or receivable for the account of the relevant Sub-fund in respect of that period, and deducting the charges and expenses of the relevant Sub-fund paid or payable out of income in respect of that accounting period. The ACD then makes such other adjustments as it considers appropriate (and after consulting the auditor as appropriate) in relation to taxation, income equalisation, income unlikely to be received within 12 months following the relevant income allocation date, income which should not be accounted for on an accrual basis because of lack of information as to how it accrues, transfers between the income and capital account and any other adjustments which the ACD considers appropriate after consulting the auditor.
- The amount initially deemed available in respect of any one class of Share may be reduced if the income attributed to another class of Share in the same Sub-fund is less than the charges applicable to that class of Share.
- 39.2.5 Income from debt securities is recognised on an effective yield basis. Effective yield is an income calculation that takes account of amortisation of any discount or premium on the purchase price of the debt security over the remaining life of the security.
- 39.2.6 Distributions made to the first named joint Shareholder are as effective a discharge to the Company and the ACD as if the first named Shareholder had been a sole Shareholder.
- 39.2.7 Income produced by the Sub-fund's investments accumulates during each accounting period. If, at the end of the accounting year, income exceeds expenses, the net income of the Sub-fund is available to be distributed to Shareholders. In order to conduct a controlled dividend flow to Shareholders, interim distributions will be, at the investment manager's discretion, up to a maximum of the distributable income available for the period. All remaining income is distributed in accordance with the Regulations.
- 39.2.8 Where a Sub-fund does not issue Accumulation Shares, a shareholder may choose to have the income reinvested to purchase further shares of that Sub-fund. Where the reinvestment of income has been permitted, the ACD will waive any initial charge due on such re-investment. Re-investment of allocations of income is made fourteen days before the relevant income allocation date.
- 39.3 **Annual Reports**
- 39.3.1 Annual reports of the Company are published within four months of each annual accounting period and half-yearly reports are published within two months of each half-yearly accounting period and are available to Shareholders on request. Shareholders will receive copies of the annual and half-yearly short reports on publication.
- 39.3.2 Investors who hold Euro, or Sterling where available, Share Classes through M&G International Investments Nominees Limited will receive copies of the annual and half-yearly reports for the Company on publication.
- 39.3.3 The accounts of the Company presented within annual and half-yearly aggregate reports will be in presented in its Base Currency. The accounts of Sub-funds presented within annual and half-yearly reports will be shown in the Valuation Currency of that Sub-fund. The Valuation Currency of each Sub-fund is listed in Appendices 1 and 4.
- 39.4 **Documents of the Company**
- Investors in Euro Share Classes should refer also to Appendix 4**
- 39.4.1 The following documents may be inspected free of charge between 9.00 am and 5.00 pm UK time every Dealing Day at the offices of the ACD at Laurence Pountney Hill, London EC4R 0HH:
- 39.4.1.1 the most recent annual and half-yearly reports of the Company;
- 39.4.1.2 the Instrument of Incorporation (and any amending instrument of incorporation).
- 39.4.1.3 Shareholders may obtain copies of the above documents from the above addresses. The ACD may make a charge at its discretion for copies of certain documents;
- 39.5 **Risk Management and Other Information**
- The following information is available from the ACD on request;
- 39.5.1 Information on the risk management methods used in relation to the Sub-funds, the quantitative limits which apply to that risk management and any developments in the risk and yields of the main categories of investment.
- 39.5.2 **Execution Policy**
- The Investment Manager's execution policy sets out the basis upon which the ACD will effect transactions and place orders in relation to the Company whilst complying with its obligations under the FCA Handbook to obtain the best possible result for the ACD on behalf of the Company.
- 39.5.3 **Exercise of voting rights**
- A description of the Investment Manager's strategy for determining how voting rights attached to ownership of Scheme Property are to be exercised for the benefit of each Sub-fund. Details of action taken in respect of the exercise of voting rights are also available.

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## M&G Investment Funds (3)

### 39.6 Management of collateral

In the context of OTC financial derivatives transactions and efficient portfolio management techniques, each Sub-Fund may receive collateral with a view to reduce its counterparty risk. This section sets out the collateral management applied by the Sub-Fund in such case.

Eligible collateral criteria are set out in Appendix 2, paragraph 11.12, 11.13 and 11.14.

#### 39.6.1 Level of collateral

Each Sub-Fund will determine the required level of collateral for OTC financial derivatives transactions and efficient portfolio management techniques by reference to the applicable counterparty risk limits and taking into account the nature and characteristics of transactions, the creditworthiness and identity of counterparties and prevailing market conditions.

The Investment Manager will generally require the counterparty to an OTC derivative to post collateral in favour of the Sub-Fund representing, at any time during the lifetime of the agreement, up to 100% of the Sub-Fund's exposure under the transaction.

#### 39.6.2 Haircut policy

Collateral acceptability and haircuts will depend on a number of factors including the asset pool available to the Sub-Fund for posting as well as the asset types acceptable to the Sub-Fund when receiving collateral, but will as a rule be of high quality, liquid and not display significant correlation with the counterparty under normal market conditions.

To this end therefore the haircuts that are applied are the result of a view of the credit and liquidity risk of the collateral and will become more "aggressive" depending on the asset type and maturity profile.

As at the date of this Prospectus, the Investment Manager typically accepts the following collateral types and applies the following haircuts in relation thereto:

Collateral type	Typical Haircut
Cash	0%
Government Bonds	1% – 20%
Corporate Bonds	1% – 20%

39.6.3 The Investment Manager reserves the right to depart from the above haircut levels where it would be appropriate to do so, taking into account the assets' characteristics (such as the credit standing of the issuers, the maturity, the currency and the price volatility of the assets). Furthermore, the Investment Manager reserves the right to accept collateral types other than those disclosed above.

No haircut will generally be applied to cash collateral.

#### 39.6.4 Reinvestment of collateral

Non-cash collateral received by the Fund on behalf of a Sub-Fund cannot be sold, reinvested or pledged, except where and to the extent permissible under FCA regulations.

Cash collateral received by the Sub-Funds can only be:

- placed on deposit with credit institutions which have their registered office in an EU Member State or, if their registered office is located in a third-country, are subject to prudential rules considered by the FCA as equivalent to those laid down in EU law;
- invested in high-quality government bonds;
- used for the purpose of reverse repo transactions provided the transactions are with credit institutions subject to prudential supervision and the relevant Sub-Fund is able to recall at any time the full amount of cash on accrued basis; and/or
- invested in short-term money market funds as defined in the ESMA Guidelines on a common definition of European Money Market Funds.

Any reinvestment of cash collateral should be sufficiently diversified in terms of country, markets and issuers with a maximum exposure, on an aggregate basis, of 20% of the Sub-Fund's Net Asset Value to any single issuer. The Sub-Fund may incur a loss in reinvesting the cash collateral it receives. Such a loss may arise due to a decline in the value of the investment made with cash collateral received. A decline in the value of such investment of the cash collateral would reduce the amount of collateral available to be returned by the Sub-Fund to the counterparty at the conclusion of the transaction. The Sub-Fund would be required to cover the difference in value between the collateral originally received and the amount available to be returned to the counterparty, thereby resulting in a loss to the Sub-Fund.

### 39.7 Notices

Notices to Shareholders will normally be given in writing to the Shareholder's registered address (or, at the discretion of the ACD, such other address which we may hold for the purposes of correspondence).

## 40 Complaints

If you wish to complain about any aspect of the service you have received or to request a copy of M&G's complaints handling procedures, please contact M&G Customer Relations, PO Box 9039, Chelmsford CM99 2XG. If your complaint is not dealt with to your satisfaction, you can then complain to: The Financial Ombudsman Service (FOS), South Quay Plaza, 183 Marsh Wall, London E14 9SR.

## 41 Tax Reporting

41.1 In order to fulfill our legal obligations we are required to obtain confirmation of the tax residency of Shareholders, and may ask for evidence of the tax identification number, and country and date of birth of individual Shareholders, or for the Global Intermediary Identification Number (GIIN) of corporate Shareholders.. If certain conditions apply, information about your shareholding may be passed to HM Revenue & Customs in order to be passed on to other tax authorities. For the purposes of the European Savings Directive such information will be passed to HM Revenue & Customs where you sell Shares in the Sub-fund where it has invested more than 25% of its assets directly or indirectly in money debts, or where

# Prospectus

## M&G Investment Funds (3)

distributions are paid out by the Sub-fund which has invested more than 15% of its assets in money debts.

- 41.2 Where investors hold Shares through M&G International Investments Nominees Limited, similar details to those mentioned above will be requested. Until 2015, you will be given options relating to withholding tax or disclosure of information to the Luxembourg tax authorities where applicable. Further information will be made available to you when you apply for Shares.

### **42 Marketing outside the UK**

- 42.1 The Company's Shares are marketed outside the UK. Paying agents in countries other than the UK where Shares are registered for retail sale may charge investors for their services.
- 42.2 The Shares in the Sub-funds have not been and will not be registered under the United States Securities Act of 1933, as amended, or registered or qualified under the securities laws of any state of the United States and may not be offered, sold, transferred or delivered, directly or indirectly, to any investors within the United States or to, or for the account of, US Persons except in certain limited circumstances pursuant to a transaction exempt from such registration or qualification requirements. None of the Shares have been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Shares or the accuracy or adequacy of the prospectus. The Sub-funds will not be registered under the United States Investment Company Act of 1940, as amended.

### **43 Markets for the Sub-funds**

The Sub-funds are marketable to all retail investors.

### **44 Genuine diversity of ownership**

- 44.1 Shares in the Company are and will continue to be widely available. The intended categories of investors are retail and institutional investors.
- 44.2 Shares in the Company are and will continue to be marketed and made available widely to reach the intended categories of investors and in a manner appropriate to attract those categories of investors.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.1 M&G Corporate Bond Fund.

#### Investment Objective

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

#### Investment Policy

The Fund invests mainly in sterling denominated corporate debt instruments. The Fund's exposure to corporate debt may be gained through the use of derivatives. Any currency exposures within the Fund may be managed by currency hedges into sterling. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 31 January (Interim); 30 April (Interim); 31 July (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class C† – Net Accumulation and Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000
Lump sum holding	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class R: £10 Class I: n/a Class C†: n/a
Redemption	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000

#### Charges and Expenses

Initial charge	Class A: 3% Class X: nil Class R: 1% Class I: 1% Class C†: -
Redemption charge	Class A: n/a Class X: 4.5%# Class R: n/a Class I: n/a Class C†: n/a
ACD's annual remuneration	Class A: 1% Class X: 1.25% Class R: 0.75% Class I: 0.5% Class C†: -
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future. Market conditions will largely dictate the timing of the launch.

# Please see paragraph 16.2 for details.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.2 M&G Dividend Fund.

#### Investment Objective and Policy

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

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class C – Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C: £25,000
Lump sum holding	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class R: £10 Class I: n/a Class C: n/a
Redemption	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C: £25,000

#### Charges and Expenses

Initial charge	Class A: 4% Class X: nil Class R: 1% Class I: 1% Class C: nil
Redemption charge	Class A: n/a Class X: 4.5%# Class R: n/a Class I: n/a Class C: n/a
ACD's annual remuneration	Class A: 1.5% Class X: 1.5% Class R: 1.0% Class I: 0.75% Class C: nil
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

\* Sterling Class 'C' Shares are available only to a company which the ACD deems to be an associate company or to other collective investment schemes managed by the ACD or a company which the ACD deems to be an associate company.

# Please see paragraph 16.2 for details.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.3 M&G Emerging Markets Bond Fund.

#### Investment Objective

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

#### Investment Policy

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

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

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class C† – Net Accumulation and Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000
Lump sum holding	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class R: £10 Class I: n/a Class C†: n/a
Redemption	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000

#### Charges and Expenses

Initial charge	Class A: 3% Class X: nil Class R: 1% Class I: 1% Class C†: -
Redemption charge	Class A: n/a Class X: 4.5%# Class R: n/a Class I: n/a Class C†: n/a
ACD's annual remuneration	Class A: 1.25% Class X: 1.25% Class R: 1.00% Class I: 0.75% Class C†: -
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future. Market conditions will largely dictate the timing of the launch.

# Please see paragraph 16.2 for details.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.4 M&G European Corporate Bond Fund.

#### Investment Objective

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

#### Investment Policy

The Fund invests mainly in investment grade corporate bonds denominated in any European currency. The Fund may also invest in high yield corporate bonds, government and public securities denominated in any European currency. The Fund's exposure to bonds, government and other public securities may be gained through the use of derivatives. The Fund may also invest in other assets, including collective investment schemes, other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the Fund may be managed by currency hedges in European currencies.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 31 January (Interim); 30 April (Interim); 31 July (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class C† – Net Accumulation and Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000
Lump sum holding	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class R: £10 Class I: n/a Class C†: n/a
Redemption	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000

#### Charges and Expenses

Initial charge	Class A: 3% Class X: nil Class R: 1% Class I: 1% Class C†: -
Redemption charge	Class A: n/a Class X: 4.5%# Class R: n/a Class I: n/a Class C†: n/a
ACD's annual remuneration	Class A: 1% Class X: 0.25% Class R: 0.75% Class I: 0.5% Class C†: -
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	13 January 2003
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future: Market conditions will largely dictate the timing of the launch.

# Please see paragraph 16.2 for details.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.5 M&G European High Yield Bond Fund.

#### Investment Objective

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

#### Investment Policy

The Fund mainly invests in higher yielding debt instruments denominated in any European currency and will normally be managed to give investors exposure to European currencies. The Fund's exposure to higher yielding debt instruments may be gained through the use of derivatives. The Fund may also invest in other assets including collective investment schemes, government and public securities and other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the Fund may be managed by currency hedges in European currencies.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 31 January (Interim); 30 April (Interim); 31 July (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class C† – Net Accumulation and Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000
Lump sum holding	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C†: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class R: £10 Class I: n/a Class C†: n/a
Redemption	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C†: £25,000

#### Charges and Expenses

Initial charge	Class A: 3% Class X: nil Class R: 1% Class I: 1% Class C†: -
Redemption charge	Class A: n/a Class X: 4.5%# Class R: n/a Class I: n/a Class C†: n/a
ACD's annual remuneration	Class A: 1.25% Class X: 1.25% Class R: 1.00% Class I: 0.75% Class C†: -
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future. Market conditions will largely dictate the timing of the launch.

# Please see paragraph 16.2 for details.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.6 M&G Fund of Investment Trust Shares.

#### Investment Objective and Policy

The portfolio is normally limited to shares of investment trust companies. These shares provide a wide spread of investment in the UK and overseas stockmarkets and are often available at substantial discounts in relation to underlying asset values. Income is not a major factor, and the yield can be expected to be slightly less than the average for investment trust companies.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class C† – Net Accumulation and Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class C†: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class C†: £25,000
Lump sum holding	Class A: £500 Class X: £500 Class C†: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class C†: n/a
Redemption	Class A: £100 Class X: £100 Class C†: £25,000

#### Charges and Expenses

Initial charge	Class A: 4% Class X: nil Class C†: -
Redemption charge	Class A: n/a Class X: 4.5%# Class C†: n/a
ACD's annual remuneration	Class A: 1% Class X: 1.5% Class C†: -
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future. Market conditions will largely dictate the timing of the launch.

# Please see paragraph 16.2 for details.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.7 M&G Global Government Bond Fund.

#### Investment Objective

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

#### Investment Policy

The portfolio will mainly consist of investment grade government debt securities, including government guaranteed debt securities, and will be invested on a global basis. The Fund's exposure to investment grade government debt may be gained through the use of derivatives. The Fund may also invest in other government and public securities, collective investment schemes, other transferable securities, other debt instruments, cash and near cash, deposits, warrants, money market instruments and other derivative instruments. The Fund may use derivatives for Efficient Portfolio Management purposes.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class Ct – Net Accumulation and Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class R: £500 Class I: £500,000 Class Ct: £500,000
Lump sum subsequent investment	Class A: £100 Class R: £100 Class I: £10,000 Class Ct: £25,000
Lump sum holding	Class A: £500 Class R: £500 Class I: £500,000 Class Ct: £500,000
Regular saving (per month)	Class A: £10 Class R: £10 Class I: n/a Class Ct: n/a
Redemption	Class A: £100 Class R: £100 Class I: £10,000 Class Ct: £25,000

#### Charges and Expenses

Initial charge	Class A: nil Class R: 1% Class I: 1% Class Ct: nil
Redemption charge	Class A: n/a Class R: n/a Class I: n/a Class Ct: n/a
ACD's annual remuneration	Class A: 1% Class R: 0.75% Class I: 0.50% Class Ct: -
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	U.S. Dollar

† This share class may be launched by the ACD at some point in the future: Market conditions will largely dictate the timing of the launch.

The Fund was created as a result of the conversion of the M&G International Sovereign Bond Fund unit trust which had been launched on 4 October 1999. The last significant change to the Fund's investment objective and/or investment policy occurred on 1 July 2014, when it was also renamed.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.8 M&G Recovery Fund.

#### Investment Objective and Policy

The Fund predominantly invests in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. The sole aim of the Fund is capital growth. There is no particular income yield target.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class C – Net Accumulation and Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class R: £500 Class C: £500,000 Class I: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class R: £100 Class C: £25,000 Class I: £10,000
Lump sum holding	Class A: £500 Class X: £500 Class R: £500 Class C: £500,000 Class I: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class R: £10 Class C: n/a Class I: n/a
Redemption	Class A: £100 Class X: £100 Class R: £100 Class C: £25,000 Class I: £10,000

#### Charges and Expenses

Initial charge	Class A: 4% Class X: nil Class R: 1% Class C: nil Class I: 1%
Redemption charge	Class A: n/a Class X: 4.5%# Class R: n/a Class C: n/a Class I: n/a
ACD's annual remuneration	Class A: 1.5% Class X: 1.5% Class R: 1.0% Class C: nil Class I: 0.85%*
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

\* With effect from 19 March 2013, the ACD's annual remuneration for Sterling Class I Shares will be 0.75%.

# Please see paragraph 16.2 for details.

# APPENDIX 1 -

## DETAILS OF THE SUB-FUNDS OF M&G INVESTMENT FUNDS (3)

### 1.9 M&G Smaller Companies Fund.

#### Investment Objective and Policy

The Fund invests in smaller companies, where good management can have most impact on earnings. Investment in such shares can offer prospects of above average capital growth. Income is not a major factor and the yield can be expected to be less than that of the FTSE All-Share Index.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types:	Sterling Class A – Net Accumulation and Net Income Sterling Class X – Net Accumulation and Net Income Sterling Class R – Net Accumulation and Net Income Sterling Class I – Net Accumulation and Net Income Sterling Class C* – Net Income

#### Investment minima

Lump sum initial investment	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C*: £500,000
Lump sum subsequent investment	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C*: £25,000
Lump sum holding	Class A: £500 Class X: £500 Class R: £500 Class I: £500,000 Class C*: £500,000
Regular saving (per month)	Class A: £10 Class X: £10 Class R: £10 Class I: n/a Class C*: n/a
Redemption	Class A: £100 Class X: £100 Class R: £100 Class I: £10,000 Class C*: £25,000

#### Charges and Expenses

Initial charge	Class A: 4% Class X: nil Class R: 1% Class I: 1% Class C*: nil
Redemption charge	Class A: n/a Class X: 4.5%# Class R: n/a Class I: n/a Class C*: n/a
ACD's annual remuneration	Class A: 1.5% Class X: 1.5% Class R: 1.0% Class I: 0.75% Class C*: nil
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

\* Sterling Class 'C' Shares are available only to a company which the ACD deems to be an associate company or to other collective investment schemes managed by the ACD or a company which the ACD deems to be an associate company.

# Please see paragraph 16.2 for details.

# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

- 1 The ACD's investment policy may mean that at times, where it is considered appropriate, the property of each sub-fund will not be fully invested and that prudent levels of liquidity will be maintained.**
- 1.1 Treatment of obligations**
- Where the COLL Sourcebook allows a transaction to be entered into or an investment to be retained only (for example, investment in warrants and nil and partly paid securities and the general power to accept or underwrite) if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in COLL 5, it must be assumed that the maximum possible liability of the Company under any other of those rules has also to be provided for
- Where a rule in the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only if that investment transaction, or the retention, or other similar transactions, are covered
- 1.1.1 it must be assumed that in applying any of those rules, each Sub-fund must also simultaneously satisfy any other obligation relating to cover; and
- 1.1.2 no element of cover must be used more than once.
- 1.2 UCITS schemes: permitted types of scheme property**
- The scheme property of a Sub-fund must, except where otherwise provided by COLL 5, and subject to its investment objective and policy, consist solely of any or all of:
- 1.2.1 transferable securities
- 1.2.2 approved money-market instruments
- 1.2.3 units in collective investment schemes
- 1.2.4 derivatives and forward transactions
- 1.2.5 deposits; and
- 1.2.6 movable and immovable property that is necessary for the direct pursuit of the Company's business; in accordance with the rules in COLL 5.2
- 1.3 Transferable Securities**
- 1.3.1 A transferable security is an investment falling within article 76 (Shares etc), article 77 (Instruments creating or acknowledging indebtedness), article 78 (Government and public securities), article 79 (Instruments giving entitlement to investments) and article 80 (Certificates representing certain securities) of the Regulated Activities Order
- 1.3.2 An investment is not a transferable security if the title to it cannot be transferred, or can be transferred only with the consent of a third party
- 1.3.3 In applying paragraph 1.3.2 to an investment which is issued by a body corporate, and which is an investment falling within articles 76 (Shares, etc) or 77 (Instruments creating or acknowledging indebtedness) of the Regulated Activities Order, the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored.
- 1.3.4 An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.
- 2 Investment in transferable securities**
- 2.1** A Sub-fund may invest in a transferable security only to the extent that the transferable security fulfils the following criteria:
- 2.1.1 the potential loss which the Sub-fund may incur with respect to holding the transferable security is limited to the amount paid for it;
- 2.1.2 its liquidity does not compromise the ability of the ACD to comply with its obligation to redeem units at the request of any qualifying Shareholder (see COLL 6.2.16R(3));
- 2.1.3 reliable valuation is available for it as follows:
- 2.1.3.1 in the case of a transferable security admitted to or dealt in on an eligible market, where there are accurate, reliable and regular prices which are either market prices or prices made available by valuation systems independent from issuers;
- 2.1.3.2 in the case of a transferable security not admitted to or dealt in on an eligible market, where there is a valuation on a periodic basis which is derived from information from the issuer of the transferable security or from competent investment research;
- 2.1.4 appropriate information is available for it as follows:
- 2.1.4.1 in the case of a transferable security admitted to or dealt in on an eligible market, where there is regular, accurate and comprehensive information available to the market on the transferable security or, where relevant, on the portfolio of the transferable security;
- 2.1.4.2 in the case of a transferable security not admitted to or dealt in on an eligible market, where there is regular and accurate information available to the ACD on the transferable security or, where relevant, on the portfolio of the transferable security;
- 2.1.5 it is negotiable; and
- 2.1.6 its risks are adequately captured by the risk management process of the ACD.
- 2.2** Unless there is information available to the ACD that would lead to a different determination, a transferable security which is admitted to or dealt in on an eligible market shall be presumed:
- 2.2.1 not to compromise the ability of the ACD to comply with its obligation to redeem units at the request of any qualifying Shareholder; and
- 2.2.2 to be negotiable.
- 2.3** Not more than 5% in value of a Sub-fund is to consist of warrants.

# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

### 3 Closed end funds constituting transferable securities

- 3.1 A unit in a closed end fund shall be taken to be a transferable security for the purposes of investment by a Sub-fund, provided it fulfils the criteria for transferable securities set out in paragraph 2, and either:
- 3.1.1 where the closed end fund is constituted as an investment company or a unit trust:
- 3.1.1.1 it is subject to corporate governance mechanisms applied to companies; and
- 3.1.1.2 where another person carries out asset management activity on its behalf, that person is subject to national regulation for the purpose of investor protection; or
- 3.1.2 where the closed end fund is constituted under the law of contract:
- 3.1.2.1 it is subject to corporate governance mechanisms equivalent to those applied to companies; and
- 3.1.2.2 it is managed by a person who is subject to national regulation for the purpose of investor protection.

### 4 Transferable securities linked to other assets

- 4.1 A Sub-fund may invest in any other investment which shall be taken to be a transferable security for the purposes of investment by a Sub-fund provided the investment:
- 4.1.1 fulfils the criteria for transferable securities set out in paragraph 2 above; and
- 4.1.2 is backed by or linked to the performance of other assets, which may differ from those in which a Sub-fund can invest.
- 4.2 Where an investment in 4.1 contains an embedded derivative component (see COLL 5.2.19R(3A)), the requirements of this section with respect to derivatives and forwards will apply to that component.

### 5 Approved Money Market Instruments

Only M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund and M&G Global Government Bond Fund may invest in money-market instruments.

- 5.1 An approved money-market instrument is a money-market instrument which is normally dealt in on the money market, is liquid and has a value which can be accurately determined at any time.
- 5.2 A money-market instrument shall be regarded as normally dealt in on the money market if it:
- 5.2.1 has a maturity at issuance of up to and including 397 days;
- 5.2.2 has a residual maturity of up to and including 397 days;
- 5.2.3 undergoes regular yield adjustments in line with money market conditions at least every 397 days; or

5.2.4 has a risk profile, including credit and interest rate risks, corresponding to that of an instrument which has a maturity as set out in 5.2.1 or 5.2.2 or is subject to yield adjustments as set out in 5.2.3.

- 5.3 A money-market instrument shall be regarded as liquid if it can be sold at limited cost in an adequately short time frame, taking into account the obligation of the ACD to redeem units at the request of any qualifying Shareholder (see COLL 6.2.16R(3)).
- 5.4 A money-market instrument shall be regarded as having a value which can be accurately determined at any time if accurate and reliable valuations systems, which fulfil the following criteria, are available:
- 5.4.1 enabling the ACD to calculate a net asset value in accordance with the value at which the instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction; and
- 5.4.2 based either on market data or on valuation models including systems based on amortised costs.
- 5.5 A money-market instrument that is normally dealt in on the money market and is admitted to or dealt in on an eligible market shall be presumed to be liquid and have a value which can be accurately determined at any time unless there is information available to the ACD that would lead to a different determination.

### 6 Transferable securities and money market instruments generally to be admitted or dealt in on an Eligible Market

- 6.1 Transferable securities and approved money market instruments held within a Sub-fund must be:
- 6.1.1 admitted to or dealt on an eligible market (as described in paragraphs 7.3.1 or 7.4); or
- 6.1.2 dealt on an eligible market as described (in paragraph 7.3.2).
- 6.1.3 for an approved money market instrument not admitted to or dealt in on an eligible market, within 8.1; or
- 6.1.4 recently issued transferable securities provided that:
- 6.1.4.1 the terms of issue include an undertaking that application will be made to be admitted to an eligible market; and
- 6.1.4.2 such admission is secured within a year of issue.
- 6.2 However, a Sub-fund may invest no more than 10% of the scheme property in transferable securities and approved money-market instruments other than those referred to in 6.1

### 7 Eligible markets regime: purpose

- 7.1 To protect investors the markets on which investments of a Sub-fund are dealt in or traded on should be of an adequate quality ("eligible") at the time of acquisition of the investment and until it is sold.
- 7.2 Where a market ceases to be eligible, investments on that market cease to be approved securities. The 10% restriction

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## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

- on investing in non approved securities applies and exceeding this limit because a market ceases to be eligible will generally be regarded as an inadvertent breach.
- 7.3 A market is eligible for the purposes of the rules if it is:
- 7.3.1 a regulated market; or
  - 7.3.2 a market in an EEA State which is regulated, operates regularly and is open to the public; or
  - 7.3.3 any market within 7.4
- 7.4 A market not falling within paragraph 7.3 is eligible for the purposes of COLL 5 if:
- 7.4.1 the ACD, after consultation with and notification to the Depositary, decides that market is appropriate for investment of, or dealing in, the Scheme Property;
  - 7.4.2 the market is included in a list in the Prospectus; and
  - 7.4.3 the Depositary has taken reasonable care to determine that:
    - adequate custody arrangements can be provided for the investment dealt in on that market; and
    - all reasonable steps have been taken by the ACD in deciding whether that market is eligible.
- 7.5 In paragraph 7.4.1, a market must not be considered appropriate unless it is regulated, operates regularly, is recognised as a market or exchange or as a self regulatory organisation by an overseas regulator, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or for the order of investors.
- 7.6 The eligible markets in which a Sub-fund may invest are set out in Appendix 3.
- 8 Money-market instruments with a regulated issuer**
- 8.1 In addition to instruments admitted to or dealt in on an eligible market, a Sub-fund may invest in an approved money-market instrument provided it fulfils the following requirements:
- 8.1.1 the issue or the issuer is regulated for the purpose of protecting investors and savings; and
  - 8.1.2 the instrument is issued or guaranteed in accordance with paragraph 9 below.
- 8.2 The issue or the issuer of a money-market instrument, other than one dealt in on an eligible market, shall be regarded as regulated for the purpose of protecting investors and savings if:
- 8.2.1 the instrument is an approved money-market instrument;
  - 8.2.2 appropriate information is available for the instrument (including information which allows an appropriate assessment of the credit risks related to investment in it), in accordance with paragraph 10 below; and
  - 8.2.3 the instrument is freely transferable.
- 9 Issuers and guarantors of money-market instruments**
- 9.1 A Sub-fund may invest in an approved money-market instrument if it is:
- 9.1.1 issued or guaranteed by any one of the following:
    - 9.1.1.1 a central authority of an EEA State or, if the EEA State is a federal state, one of the members making up the federation;
    - 9.1.1.2 a regional or local authority of an EEA State;
    - 9.1.1.3 the European Central Bank or a central bank of an EEA State;
    - 9.1.1.4 the European Union or the European Investment Bank;
    - 9.1.1.5 a non-EEA State or, in the case of a federal state, one of the members making up the federation;
    - 9.1.1.6 a public international body to which one or more EEA States belong; or
  - 9.1.2 issued by a body, any securities of which are dealt in on an eligible market; or
  - 9.1.3 issued or guaranteed by an establishment which is:
    - 9.1.3.1 subject to prudential supervision in accordance with criteria defined by Community law; or
    - 9.1.3.2 subject to and complies with prudential rules considered by the FCA to be at least as stringent as those laid down by Community law.
- 9.2 An establishment shall be considered to satisfy the requirement in 9.1.3.2 if it is subject to and complies with prudential rules, and fulfils one or more of the following criteria:
- 9.2.1 it is located in the European Economic Area;
  - 9.2.2 it is located in an OECD country belonging to the Group of Ten;
  - 9.2.3 it has at least investment grade rating;
  - 9.2.4 on the basis of an in-depth analysis of the issuer, it can be demonstrated that the prudential rules applicable to that issuer are at least as stringent as those laid down by Community law.
- 10 Appropriate information for money-market instruments**
- 10.1 In the case of an approved money-market instrument within 9.1.2 or issued by a body of the type referred to in 11 below; or which is issued by an authority within 9.1.1.2 or a public international body within 9.1.1.6 but is not guaranteed by a central authority within 9.1.1.1, the following information must be available:
- 10.1.1 information on both the issue or the issuance programme, and the legal and financial situation of the issuer prior to the issue of the instrument, verified by appropriately qualified third parties not subject to instructions from the issuer;
  - 10.1.2 updates of that information on a regular basis and whenever a significant event occurs; and
  - 10.1.3 available and reliable statistics on the issue or the issuance programme.

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- 10.2 In the case of an approved money-market instrument issued or guaranteed by an establishment within 9.1.3, the following information must be available:
- 10.2.1 information on the issue or the issuance programme or on the legal and financial situation of the issuer prior to the issue of the instrument;
  - 10.2.2 updates of that information on a regular basis and whenever a significant event occurs; and
  - 10.2.3 available and reliable statistics on the issue or the issuance programme, or other data enabling an appropriate assessment of the credit risks related to investment in those instruments.
- 10.3 In the case of an approved money-market instrument:
- 10.3.1 within 9.1.1.1, 9.1.1.4 or 9.1.1.5; or
  - 10.3.2 which is issued by an authority within 9.1.1.2 or a public international body within 9.1.1.6 and is guaranteed by a central authority within 9.1.1.1; information must be available on the issue or the issuance programme, or on the legal and financial situation of the issuer prior to the issue of the instrument.
- 11 Spread: general**
- 11.1 This paragraph 11 on spread does not apply to government and public securities.
- 11.2 For the purposes of this requirement companies included in the same group for the purposes of consolidated accounts as defined in accordance with Directive 83/349/EEC or in the same group in accordance with international accounting standards are regarded as a single body.
- 11.3 Not more than 20% in value of the Scheme Property is to consist of deposits with a single body.
- 11.4 Not more than 5% in value of the Scheme Property is to consist of transferable securities or approved money-market instruments issued by any single body.
- 11.5 The limit of 5% in paragraph 11.4 is raised to 10% in respect of up to 40% in value of the Scheme Property. Covered bonds need not be taken into account for the purpose of applying the limit of 40%. The limit of 5% in 11.4 is raised to 25% in value of the Scheme Property in respect of covered bonds, provided that when a Sub-fund invests more than 5% in covered bonds issued by a single body, the total value of covered bonds held must not exceed 80% in value of the Scheme Property.
- 11.6 In applying paragraphs 11.4 and 11.5 certificates representing certain securities are treated as equivalent to the underlying security.
- 11.7 The exposure to any one counterparty in an OTC derivative transaction must not exceed 5% in value of the Scheme Property. This limit is raised to 10% where the counterparty is an Approved Bank.
- 11.8 Not more than 20% in value of a Sub-fund is to consist of transferable securities and approved money market instruments issued by the same group (as referred to in paragraph 11.2).
- 11.9 Not more than 10% in value of a Sub-fund is to consist of the units of any one collective investment scheme.
- 11.10 In applying the limits in paragraphs 11.3, 11.4, 11.5, 11.6 and 11.7 not more than 20% in value of the Scheme Property is to consist of any combination of two or more of the following:
- 11.10.1 transferable securities (including covered bonds) or approved money market instruments issued by; or
  - 11.10.2 deposits made with; or
  - 11.10.3 exposures from OTC derivatives transactions made with; a single body.
- 11.11 For the purpose of calculating the limits in 11.7 and 11.10, the exposure in respect of an OTC derivative may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the conditions specified in 11.12.
- 11.12 The conditions referred to in 11.11 are that the collateral:
- 11.12.1 is marked-to-market on a daily basis and exceeds the value of the amount at risk;
  - 11.12.2 is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;
  - 11.12.3 is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
  - 11.12.4 can be fully enforced by a Sub-fund at any time.
- 11.13 For the purpose of calculating the limits in 11.7 and 11.10, OTC derivative positions with the same counterparty may be netted provided that the netting procedures:
- 11.13.1 comply with the conditions set out in Section 3 (Contractual netting (Contracts for novation and other netting agreements)) of Annex III to Directive 2000/12/EC; and
  - 11.13.2 are based on legally binding agreements.
- 11.14 In applying this rule, all derivatives transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets each of the following conditions:
- 11.14.1 it is backed by an appropriate performance guarantee; and
  - 11.14.2 it is characterised by a daily mark-to-market valuation of the derivative positions and an at least daily margining.
- 12 Spread: Government and public securities**
- 12.1 The above restrictions do not apply to government and public securities ("such securities"). The restrictions in relation to such securities are set out below.
- 12.2 Where no more than 35% in value of the Scheme Property is invested in such securities issued by any one body, there is no limit on the amount which may be invested in such securities or in any one issue.
- 12.3 Subject to its investment objective and policy, a Sub-fund may invest more than 35% in value of the Scheme Property in such securities issued by any one body provided that:
- 12.3.1 the ACD has before any such investment is made consulted with the Depositary and as a result considers that the issuer of such securities is one which is appropriate in accordance with the investment objectives of a Sub-fund;
  - 12.3.2 no more than 30% in value of the Scheme Property consists of such securities of any one issue;

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- 12.3.3 the Scheme Property includes such securities issued by that or another issuer, of at least six different issues.
- 12.4 In relation to such securities:
- 12.4.1 issue, issued and issuer include guarantee, guaranteed and guarantor; and
- 12.4.2 an issue differs from another if there is a difference as to repayment date, rate of interest, guarantor or other material terms of the issue.
- 12.5 Notwithstanding paragraph 11.1 above, and subject to paragraphs 12.2 and 12.3, in applying the 20% limit in 11.11 with respect to a single body, government and public securities issued by that body shall be taken into account.
- 12.6 In relation to M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European High Yield Bond Fund, M&G Global Government Bond Fund over 35% of the Scheme Property may be invested in Government and other public securities issued by any of:
- 12.6.1 the Government of the United Kingdom (including the Scottish Administration, the Executive Committee of the Northern Ireland Assembly and the National Assembly of Wales);
- 12.6.2 the Governments of Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Brazil, China, Malaysia, Mexico, South Africa, and Turkey;
- 12.6.3 the Government of Australia, Canada, Japan, New Zealand, Switzerland, USA;
- 12.6.4 the African Development Bank, Asian Development Bank, Eurofima, European Economic Community, European Bank for Reconstruction and Development, European Investment Bank, International Bank for Reconstruction and Development, International Financial Corporation.
- 13 Investment in collective investment schemes**
- 13.1 A Sub-fund may invest in units in a collective investment scheme provided that the second scheme complies with the following requirements:
- 13.1.1 it is a scheme which complies with the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or
- 13.1.2 is recognised under the provisions of section 270 of the Act (Schemes authorised in designated countries or territories); or
- 13.1.3 is authorised as a non-UCITS retail scheme (provided the requirements of article 19(1)(e) of the UCITS Directive are met); or
- 13.1.4 is authorised in another EEA State (provided the requirements of article 19(1)(e) of the UCITS Directive are met);
- 13.1.5 it is a scheme which complies where relevant with paragraph 13.4 below; and
- 13.1.6 it is a scheme which has terms which prohibit more than 10% in value of the Scheme Property consisting of units in collective investment schemes.
- 13.1.7 where it is an umbrella scheme, the provisions in paragraphs 13.1.5 and 13.1.6 apply to a Sub-fund as if it were a separate scheme.
- 13.2 Not more than 10% of the Scheme Property of a Sub-fund is to consist of units in collective investment schemes.
- 13.3 For the purposes of paragraphs 13.1 and 13.2 a Sub-fund of an umbrella scheme is to be treated as if it were a separate scheme. A Sub-fund may invest in or dispose of shares in another Sub-fund of the Company (the second Sub-fund) provided that the second Sub-fund does not hold shares in any other Sub-fund in the Company.
- 13.4 In accordance with COLL 5.2.15R a Sub-fund may invest up to 10% of its Scheme property units in collective investment schemes managed or operated by (or, if it is an open-ended investment company has as its authorised corporate director), the ACD or an Associate of the ACD.
- 13.5 A Sub-fund must not invest in or dispose of units in another collective investment scheme (the second scheme), which is managed or operated by (or in the case of an open-ended investment company has as its authorised corporate director), the ACD, or an Associate of the ACD, unless:
- 13.5.1 there is no charge in respect of the investment in or the disposal of units in the second scheme; or
- 13.5.2 the ACD is under a duty to pay to a Sub-fund by the close of business on the fourth business day next after the agreement to buy or to sell the amount referred to in paragraphs 13.5.3 and 13.5.4;
- 13.5.3 on investment, either:  
any amount by which the consideration paid by a Sub-fund for the units in the second scheme exceeds the price that would have been paid for the benefit of the second scheme had the units been newly issued or sold by it; or  
if such price cannot be ascertained by the ACD, the maximum amount of any charge permitted to be made by the seller of units in the second scheme;
- 13.5.4 on disposal, the amount of any charge made for the account of the ACD or operator of the second scheme or an Associate of any of them in respect of the disposal; and
- 13.6 In paragraphs 13.5.1 to 13.5.4 above:
- 13.6.1 any addition to or deduction from the consideration paid on the acquisition or disposal of units in the second scheme, which is applied for the benefit of the second scheme and is, or is like, a dilution levy or SDRT provision, is to be treated as part of the price of the units and not as part of any charge; and
- 13.6.2 any switching charge made in respect of an exchange of units in one Sub-fund or separate part of the second scheme for units in another Sub-fund or separate part of that scheme is to be included as part of the consideration paid for the units.

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### 14 Investment in nil and partly paid securities

- 14.1 A transferable security or an approved money market instrument on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Company, at the time when payment is required, without contravening the rules in COLL 5.

### 15 Derivatives – General

- 15.1 All Sub-funds may, in accordance with the COLL Sourcebook, use derivatives for the purposes of Efficient Portfolio Management (including hedging). In addition, the M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund and M&G Global Government Bond Fund may use derivatives for investment purposes.

- 15.2 Under the COLL Sourcebook derivatives are permitted for Sub-funds for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives or both.

- 15.3 A transaction in derivatives or a forward transaction must not be effected for a Sub-fund unless the transaction is of a kind specified in paragraph 16 below (Permitted transactions (derivatives and forwards)); and the transaction is covered, as required by paragraph 28 (Cover for transactions in derivatives and forward transactions).

- 15.4 Where a Sub-fund invests in derivatives, the exposure to the underlying assets must not exceed the limits set out in COLL in relation to spread (COLL 5.2.13 R Spread : general and COLL 5.2.14 R Spread : government and public securities) except for index based derivatives where the rules below apply.

- 15.5 Where a transferable security or approved money market instrument embeds a derivative, this must be taken into account for the purposes of complying with this section.

- 15.6 A transferable security or an approved money-market instrument will embed a derivative if it contains a component which fulfils the following criteria:

- 15.6.1 by virtue of that component some or all of the cash flows that otherwise would be required by the transferable security or approved money-market instrument which functions as host contract can be modified according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, and therefore vary in a way similar to a stand-alone derivative;

- 15.6.2 its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and

- 15.6.3 it has a significant impact on the risk profile and pricing of the transferable security or approved money-market instrument.

- 15.6.4 A transferable security or an approved money-market instrument does not embed a derivative where it contains a component which is contractually transferable independently of the transferable security or the approved money-market instrument. That component shall be deemed to be a separate instrument.

- 15.7 Where a scheme invests in an index based derivative, provided the relevant index falls within paragraph 17 (Financial indices underlying derivatives) the underlying constituents of the index do not have to be taken into account for the purposes of the rules on spread in COLL. The relaxation is subject to the ACD continuing to ensure that the Scheme Property provides a prudent spread of risk. Please refer to paragraph 28.9.4 above for a description of the risk factors associated with investments in derivatives.

### 16 Permitted transactions (derivatives and forwards)

- 16.1 A transaction in a derivative must be in an approved derivative; or be one which complies with paragraph 20 (OTC transactions in derivatives).

- 16.2 A transaction in a derivative must have the underlying consisting of any or all of the following to which the scheme is dedicated:

- 16.2.1 transferable securities permitted under paragraph 6 (Transferable securities and approved money market instruments generally to be admitted or dealt in on an Eligible Market);

- 16.2.2 approved money market instruments permitted under paragraph 5 (approved money market instruments) above;

- 16.2.3 deposits permitted under paragraph 23 (investment in deposits) below;

- 16.2.4 derivatives permitted under this rule;

- 16.2.5 collective investment scheme units permitted under paragraph 13 (investment collective investment schemes) above;

- 16.2.6 financial indices which satisfy the criteria set out at paragraph 17 (financial indices underlying derivatives) below;

- 16.2.7 interest rates;

- 16.2.8 foreign exchange rates; and

- 16.2.9 currencies.

- 16.3 A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market.

- 16.4 A transaction in a derivative must not cause a Sub-fund to diverge from its investment objectives as stated in the Instrument constituting the scheme and the most recently published version of this Prospectus.

- 16.5 A transaction in a derivative must not be entered into if the intended effect is to create the potential for an uncovered sale of one or more, transferable securities approved, money market instruments, units in collective investment schemes, or derivatives provided that a sale is not to be considered as uncovered if the conditions in paragraph 19 (Requirement to cover sales) are satisfied.

- 16.6 Any forward transaction must be with an Eligible Institution or an Approved Bank.

- 16.7 A derivative includes an instrument which fulfils the following criteria:

- 16.7.1 it allows the transfer of the credit risk of the underlying independently from the other risks associated with that underlying;

- 16.7.2 it does not result in the delivery or the transfer of assets other than those referred to in paragraph

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- 1.2 above (UCITS schemes: permitted types of scheme property) including cash;
- 16.7.3 in the case of an OTC derivative, it complies with the requirements in paragraph 20 below (OTC transactions in derivatives);
- 16.7.4 its risks are adequately captured by the risk management process of the ACD, and by its internal control mechanisms in the case of risks of asymmetry of information between the ACD and the counterparty to the derivative, resulting from potential access of the counterparty to non-public information on persons whose assets are used as the underlying by that derivative.
- 16.8 A Sub-fund may not undertake transactions in derivatives on commodities.
- 17 Financial indices underlying derivatives**
- 17.1 The financial indices referred to in 16.2.6 are those which satisfy the following criteria:
- 17.1.1 the index is sufficiently diversified;
- 17.1.2 the index represents an adequate benchmark for the market to which it refers; and
- 17.1.3 the index is published in an appropriate manner.
- 17.2 A financial index is sufficiently diversified if:
- 17.2.1 it is composed in such a way that price movements or trading activities regarding one component do not unduly influence the performance of the whole index;
- 17.2.2 where it is composed of assets in which a Sub-fund is permitted to invest, its composition is at least diversified in accordance with the requirements with respect to spread and concentration set out in this section; and
- 17.2.3 where it is composed of assets in which a Sub-fund cannot invest, it is diversified in a way which is equivalent to the diversification achieved by the requirements with respect to spread and concentration set out in this section.
- 17.3 A financial index represents an adequate benchmark for the market to which it refers if:
- 17.3.1 it measures the performance of a representative group of underlyings in a relevant and appropriate way;
- 17.3.2 it is revised or rebalanced periodically to ensure that it continues to reflect the markets to which it refers, following criteria which are publicly available; and
- 17.3.3 the underlyings are sufficiently liquid, allowing users to replicate it if necessary.
- 17.4 A financial index is published in an appropriate manner if:
- 17.4.1 its publication process relies on sound procedures to collect prices, and calculate and subsequently publish the index value, including pricing procedures for components where a market price is not available; and
- 17.4.2 material information on matters such as index calculation, rebalancing methodologies, index changes or any operational difficulties in providing timely or accurate information is provided on a wide and timely basis.
- 17.5 Where the composition of underlyings of a transaction in a derivative does not satisfy the requirements for a financial index, the underlyings for that transaction shall where they satisfy the requirements with respect to other underlyings pursuant to 16.2, be regarded as a combination of those underlyings.
- 18 Transactions for the purchase of property**
- 18.1 A derivative or forward transaction which will or could lead to the delivery of property for the account of a Sub-fund may be entered into only if that property can be held for the account of the Sub-fund, and the ACD having taken reasonable care determines that delivery of the property under the transaction will not occur or will not lead to a breach of the rules in the COLL Sourcebook.
- 19 Requirement to cover sales**
- 19.1 No agreement by or on behalf of a Sub-fund to dispose of property or rights may be made unless the obligation to make the disposal and any other similar obligation could immediately be honoured by the Sub-fund by delivery of property or the assignment (or, in Scotland, assignation) of rights, and the property and rights above are owned by the Sub-fund at the time of the agreement. This requirement does not apply to a deposit.
- 19.2 Paragraph 19.1 does not apply where:
- 19.2.1 the risks of the underlying financial instrument of a derivative can be appropriately represented by another financial instrument and the underlying financial instrument is highly liquid; or
- 19.2.2 the ACD or the Depositary has the right to settle the derivative in cash and cover exists within the Scheme Property which falls within one of the following asset Classes:
- cash;
- liquid debt instruments (e.g. government bonds of first credit rating) with appropriate safeguards (in particular, haircuts); or
- other highly liquid assets having regard to their correlation with the underlying of the financial derivative instruments, subject to appropriate safeguards (e.g. haircuts where relevant).
- 19.3 In the asset classes referred to in 20.2.2, an asset may be considered as liquid where the instrument can be converted into cash in no more than seven business days at a price closely corresponding to the current valuation of the financial instrument on its own market.
- 20 OTC transactions in derivatives**
- 20.1 Any transaction in an OTC derivative under paragraph 16.1 must be:
- 20.1.1 in a future, option or contract for differences;
- 20.1.2 with an approved counterparty; a counterparty to a transaction in derivatives is approved only if the counterparty is an Eligible Institution or an Approved Bank; or a person whose permission (including any requirements or limitations), as published in the FCA Register or whose Home State authorisation, permits it to enter into the transaction as principal off-exchange;

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20.1.3 on approved terms; the terms of the transaction in derivatives are approved only if, before the transaction is entered into, the Depositary is satisfied that the counterparty has agreed with a Sub-fund: to provide at least daily and at any other time at the request of the Sub-fund reliable and verifiable valuation in respect of that transaction corresponding to its fair value (being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction) and which does not rely only on market quotations by the counterparty and that it will, at the request of the Sub-fund, enter into a further transaction to sell, liquidate or close out that transaction at any time, at a fair value arrived at under the reliable market value basis or pricing model agreed under 20.1.4; and

20.1.4 capable of reliable valuation; a transaction in derivatives is capable of reliable valuation only if the ACD having taken reasonable care determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy: on the basis of an up-to-date market value which the ACD and the Depositary have agreed is reliable; or if that value is not available, on the basis of a pricing model which the ACD and the Depositary have agreed uses an adequate recognised methodology; and

20.1.5 subject to verifiable valuation; a transaction in derivatives is subject to verifiable valuation only if, throughout the life of the derivative (if the transaction is entered into) verification of the valuation is carried out by:

20.1.5.1 an appropriate third party which is independent from the counterparty of the derivative, at an adequate frequency and in such a way that the ACD is able to check it; or

20.1.5.2 a department within the ACD which is independent from the department in charge of managing the scheme property and which is adequately equipped for such a purpose.

### 21 Valuation of OTC derivatives

21.1 For the purposes of paragraph 20.1.2, the ACD must:

21.1.1 establish, implement and maintain arrangements and procedures which ensure appropriate, transparent and fair valuation of the exposures of a Fund to OTC derivatives; and

21.1.2 ensure that the fair value of OTC derivatives is subject to adequate, accurate and independent assessment.

21.2 Where the arrangements and procedures referred to in paragraph 21.1.1 involve the performance of certain activities by third parties, the ACD must comply with the requirements in SYSC 8.1.13 R (Additional requirements for a management company) and COLL 6.6A.4 R (4) to (6) (Due diligence requirements of AFMs of UCITS schemes).

21.3 The arrangements and procedures referred to in this rule must be:

21.3.1 adequate and proportionate to the nature and complexity of the OTC derivative concerned; and

21.3.2 adequately documented.

### 22 Risk management

22.1 The ACD must use a risk management process, as reviewed by the Depositary, enabling it to monitor and measure as frequently as appropriate the risk of a Sub-fund's positions and their contribution to the overall risk profile of the Sub-fund.

22.2 The following details of the risk management process must be regularly notified by the ACD to the FCA and at least on an annual basis:

22.2.1 a true and fair view of the types of derivatives and forward transactions to be used within a Company together with their underlying risks and any relevant quantitative limits; and

22.2.2 the methods for estimating risks in derivative and forward transactions.

### 23 Investment in deposits

Only M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund and M&G Global Government Bond Fund may invest in deposits.

23.1 A Sub-fund may invest in deposits only with an Approved Bank and which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months.

### 24 Significant influence

24.1 The Company must not acquire transferable securities issued by a body corporate and carrying rights to vote (whether or not on substantially all matters) at a general meeting of that body corporate if:

24.1.1 immediately before the acquisition, the aggregate of any such securities held by a Sub-fund gives the Sub-fund power significantly to influence the conduct of business of that body corporate; or

24.1.2 the acquisition gives the Company that power.

24.2 The Company is to be taken to have power significantly to influence the conduct of business of a body corporate if it can, because of the transferable securities held by it, exercise or control the exercise of 20% or more of the voting rights in that body corporate (disregarding for this purpose any temporary suspension of voting rights in respect of the transferable securities of that body corporate).

### 25 Concentration

**A Sub-fund:**

25.1 must not acquire transferable securities (other than debt securities) which:

25.1.1 do not carry a right to vote on any matter at a general meeting of the body corporate that issued them; and

25.1.2 represent more than 10% of those securities issued by that body corporate;

25.2 must not acquire more than 10% of the debt securities issued by any single body;

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- 25.3 must not acquire more than 25% of the units in a collective investment scheme;
- 25.4 must not acquire more than 10% of the approved money market instruments issued by any single body; and
- 25.5 need not comply with the limits in paragraphs 25.2 to 25.4 if, at the time of acquisition, the net amount in issue of the relevant investment cannot be calculated.

### 26 Schemes replicating an index

- 26.1 Notwithstanding paragraph 11 a Sub-fund may invest up to 20% in value of the Scheme Property in shares and debentures which are issued by the same body where the stated investment policy is to replicate the composition of a relevant index as defined below.
- 26.2 Replication of the composition of a relevant index shall be understood to be a reference to replication of the composition of the underlying assets of that index, including the use of techniques and instruments permitted for the purpose of efficient portfolio management.
- 26.3 The 20% limit can be raised up to 35% in value of the Scheme Property, but only in respect of one body and where justified by exceptional market conditions.
- 26.4 The indices referred to above are those which satisfy the following criteria:
- 26.4.1 The composition is sufficiently diversified;
- 26.4.2 The index represents an adequate benchmark for the market to which it refers; and
- 26.4.3 The index is published in an appropriate manner.
- 26.5 The composition of an index is sufficiently diversified if its components adhere to the spread and concentration requirements in this section.
- 26.6 An index represents an adequate benchmark if its provider uses a recognised methodology which generally does not result in the exclusion of a major issuer of the market to which it refers.
- 26.7 An index is published in an appropriate manner if:
- 26.7.1 it is accessible to the public;
- 26.7.2 the index provider is independent from the index-replicating Sub-fund; this does not preclude index providers and the Sub-fund from forming part of the same group, provided that effective arrangements for the management of conflicts of interest are in place.

### 27 Derivatives exposure

- 27.1 A Sub-fund may invest in derivatives and forward transactions as long as the exposure to which the Sub-fund is committed by that transaction itself is suitably covered from within its Scheme Property. Exposure will include any initial outlay in respect of that transaction.
- 27.2 Cover ensures that a Sub-fund is not exposed to the risk of loss of property, including money, to an extent greater than the net value of the Scheme Property. Therefore, the Sub-fund must hold Scheme Property sufficient in value or amount to match the exposure arising from a derivative obligation to which the Sub-fund is committed. Paragraph 28 (Cover for transactions in derivatives and forward transactions) sets out detailed requirements for cover of a Sub-fund.

- 27.3 Cover used in respect of one transaction in derivatives or forward transaction must not be used for cover in respect of another transaction in derivatives or a forward transaction.

### 28 Cover for transactions in derivatives and forward transactions

- 28.1 A transaction in derivatives or forward transaction is to be entered into only if the maximum exposure, in terms of the principal or notional principal created by the transaction to which the scheme is or may be committed by another person is covered globally.
- 28.2 Exposure is covered globally if adequate cover from within the Scheme Property is available to meet the scheme's total exposure, taking into account the value of the underlying assets, any reasonably foreseeable market movement, counterparty risk, and the time available to liquidate any positions.
- 28.3 Cash not yet received into the Scheme Property but due to be received within one month is available as cover.
- 28.4 Property the subject of a stock lending transaction is only available for cover if the ACD has taken reasonable care to determine that it is obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.
- 28.5 The total exposure relating to derivatives held in a Sub-fund may not exceed the net value of the Scheme Property.

### 29 Daily calculation of global exposure

- 29.1 The ACD must calculate the global exposure of the Company on at least a daily basis.
- 29.2 For the purposes of this section, exposure must be calculated taking into account the current value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions.

### 30 Calculation of global exposure

- 30.1 The ACD must calculate the global exposure of the Company it manages either as:
- 30.1.1 the incremental exposure and leverage generated through the use of derivatives and forward transactions (including embedded derivatives as referred to in paragraph 15 (Derivatives: general), which may not exceed 100% of the Net Asset Value of the scheme property of the Company, by way of the commitment approach; or
- 30.1.2 the market risk of the scheme property of the Company, by way of the value at risk approach.
- 30.2 The ACD must ensure that the method selected above is appropriate, taking into account:
- 30.2.1 the investment strategy pursued by the Company;
- 30.2.2 the types and complexities of the derivatives and forward transactions used; and
- 30.2.3 the proportion of the scheme property comprising derivatives and forward transactions.
- 30.3 Where a Company employs techniques and instruments including repo contracts or stock lending transactions in accordance with paragraph 33 (Stock lending) in order to generate additional leverage or exposure to market risk, the

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ACD must take those transactions into consideration when calculating global exposure.

30.4 For the purposes of paragraph 30.1, value at risk means a measure of the maximum expected loss at a given confidence level over the specific time period.

30.5 The ACD calculates the global exposure of M&G International Sovereign IF(3) using the value at risk (VaR) based techniques. VaR measure each fund's sensitivity to core market risk factors such as credit risk and interest rates. VaR is a technique used to estimate the probability of portfolio losses based on statistical analysis of historical price trends and volatilities.

### 31 Commitment approach

31.1 Where the ACD uses the commitment approach for the calculation of global exposure, it must:

31.1.1 ensure that it applies this approach to all derivative and forward transactions (including embedded derivatives as referred to in paragraph 15 (Derivatives: general)), whether used as part of the Company's general investment policy, for the purposes of risk reduction or for the purposes of Efficient Portfolio Management in accordance with paragraph 33 (Stock lending); and

31.1.2 convert each derivative or forward transaction into the market value of an equivalent position in the underlying asset of that derivative or forward (standard commitment approach).

31.2 The ACD may apply other calculation methods which are equivalent to the standard commitment approach.

31.3 For the commitment approach, the ACD may take account of netting and hedging arrangements when calculating global exposure of the Company, where these arrangements do not disregard obvious and material risks and result in a clear reduction in risk exposure.

31.4 Where the use of derivatives or forward transactions does not generate incremental exposure for the Company, the underlying exposure need not be included in the commitment calculation.

31.5 Where the commitment approach is used, temporary borrowing arrangements entered into on behalf of the Company in accordance with paragraph 34 need not form part of the global exposure calculation.

### 32 Cover and borrowing

32.1 Cash obtained from borrowing, and borrowing which the ACD reasonably regards an Eligible Institution or an Approved Bank to be committed to provide, is available for cover under the previous paragraph 28 (Cover for transactions in derivatives and forward transactions) as long as the normal limits on borrowing (see below) are observed.

32.2 Where, for the purposes of this paragraph a Sub-fund borrows an amount of currency from an Eligible Institution or an Approved Bank; and keeps an amount in another currency, at least equal to such borrowing for the time on deposit with the lender (or his agent or nominee), then this applies as if the borrowed currency, and not the deposited currency, were part of the Scheme Property, and the normal limits on borrowing under paragraph 34 (General power to borrow) do not apply to that borrowing.

### 33 Cash and near cash

33.1 Cash and near cash must not be retained in the Scheme Property except to the extent that, this may reasonably be regarded as necessary in order to enable:

33.1.1 the pursuit of a Sub-fund's investment objectives (applicable to M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund, M&G European High Yield Bond Fund and M&G Global Government Bond Fund only); or

33.1.2 redemption of Shares; or

33.1.3 efficient management of a Sub-fund in accordance with its investment objectives; or

33.1.4 other purposes which may reasonably be regarded as ancillary to the investment objectives of a Sub-fund.

33.2 During the period of the initial offer the Scheme Property may consist of cash and near cash without limitation.

### 34 General power to borrow

34.1 A Sub-fund may, in accordance with this paragraph and paragraph 35, borrow money for the use of the Sub-fund on terms that the borrowing is to be repayable out of the Scheme Property. This power to borrow is subject to the obligation of the Sub-fund to comply with any restriction in the instrument constituting the Sub-fund.

34.2 A Sub-fund may borrow under paragraph 34.1 only from an Eligible Institution or an Approved Bank.

34.3 The ACD must ensure that any borrowing is on a temporary basis and that borrowings are not persistent, and for this purpose the ACD must have regard in particular to:

34.3.1 the duration of any period of borrowing; and

34.3.2 the number of occasions on which resort is had to borrowing in any period.

34.4 The ACD must ensure that no period of borrowing exceeds three months, without the consent of the Depositary.

34.5 These borrowing restrictions do not apply to "back to back" borrowing for currency hedging purposes.

34.6 A Sub-fund must not issue any debenture unless it acknowledges or creates a borrowing that complies with paragraph 34.1 to 34.5.

### 35 Borrowing limits

35.1 The ACD must ensure that a Sub-fund's borrowing does not, on any business day, exceed 10% of the value of the Scheme Property of the Sub-fund.

35.2 In this paragraph 35, "borrowing" includes, as well as borrowing in a conventional manner, any other arrangement (including a combination of derivatives) designed to achieve a temporary injection of money into the Scheme Property in the expectation that the sum will be repaid.

35.3 For each Sub-fund, borrowing does not include any arrangement for the Sub-fund to pay to a third party (including the ACD) any set up costs which the Sub-fund is entitled to amortise and which were paid on behalf of the Sub-fund by the third party.

# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

### 36 Restrictions on lending of money

- 36.1 None of the money in the Scheme Property of a Sub-fund may be lent and, for the purposes of this prohibition, money is lent by a Sub-fund if it is paid to a person ("the payee") on the basis that it should be repaid, whether or not by the payee.
- 36.2 Acquiring a debenture is not lending for the purposes of paragraph 36.1; nor is the placing of money on deposit or in a current account.
- 36.3 Paragraph 36.1 does not prevent a Sub-fund from providing an officer of the Sub-fund with funds to meet expenditure to be incurred by him for the purposes of the Sub-fund (or for the purposes of enabling him properly to perform his duties as an officer of the Sub-fund) or from doing anything to enable an officer to avoid incurring such expenditure.

### 37 Restrictions on lending of property other than money

- 37.1 The Scheme Property of a Sub-fund other than money must not be lent by way of deposit or otherwise.
- 37.2 The Scheme Property of a Sub-fund must not be mortgaged.

### 38 General power to accept or underwrite issues of stock

- 38.1 Any power in Chapter 5 of the COLL Sourcebook to invest in transferable securities may be used for the purpose of entering into transactions to which this section applies, subject to compliance with any restriction in the Instrument of Incorporation.
- 38.2 This section applies, subject to paragraph 38.3, to any agreement or understanding:
- 38.2.1 which is an underwriting or Sub-underwriting agreement; or
- 38.2.2 which contemplates that securities will or may be issued or subscribed for or acquired for the account of a Sub-fund.
- 38.3 Paragraph 34.2 does not apply to:
- 38.3.1 an option; or
- 38.3.2 a purchase of a transferable security which confers a right:
- to subscribe for or acquire a transferable security; or
- to convert one transferable security into another.
- 38.3.3 The exposure of a Sub-fund to agreements and understandings within paragraph 38.2 must, on any business day:
- be covered in accordance with the requirements of rule 5.3.3R of the COLL Sourcebook; and
- be such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in Chapter 5 of the COLL Sourcebook.

### 39 Guarantees and indemnities

- 39.1 A Sub-fund or the Depositary for the account of the Sub-fund must not provide any guarantee or indemnity in respect of the obligation of any person.

- 39.2 None of the Scheme Property of a Sub-fund may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.

- 39.3 Paragraphs 39.1 and 39.2 do not apply in respect of a Sub-fund to:

- 39.3.1 any indemnity or guarantee given for margin requirements where the derivatives or forward transactions are being used in accordance with the FCA rules;

- 39.3.2 an indemnity falling within the provisions of regulation 62(3) (Exemptions from liability to be void) of the Treasury Regulations;

- 39.3.3 an indemnity (other than any provision in it which is void under regulation 62 of the Treasury Regulations) given to the Depositary against any liability incurred by it as a consequence of the safekeeping of any of the Scheme Property by it or by anyone retained by it to assist it to perform its function of the safekeeping of the Scheme Property; and

- 39.3.4 an indemnity given to a person winding up a scheme if the indemnity is given for the purposes of arrangements by which the whole or part of the property of that scheme becomes the first property of a Sub-fund and the holders of units in that scheme become the first Shareholders in the Sub-fund.

### 40 Efficient Portfolio Management

- 40.1 The Company may enter into transactions for the purposes of efficient portfolio management ("EPM"), including hedging transactions and temporary short term tactical asset allocation, e.g. for the purposes of preserving the value of an asset or assets of the Company and liquidity management purposes, (i.e. to enable the Company to be adequately invested).

Such transactions may include, but are not limited to currency forwards, futures, credit default swaps, total return swaps, dividend swaps, asset swaps, options and contracts for differences.

- 40.2 Permitted EPM transactions (excluding stock lending arrangements) are transactions in derivatives (i.e. options, futures or contracts for differences) dealt in or traded on an approved derivatives market; off exchange futures, options or contracts for differences resembling options; or synthetic futures in certain circumstances. The Company may enter into approved derivatives transactions on derivatives markets which are eligible. Eligible derivatives markets are those which the ACD after consultation with the Depositary has decided are appropriate for the purpose of investment of or dealing in the scheme property with regard to the relevant criteria set out in the Regulations and the Guidance on eligible markets issued by the FCA as amended from time to time.

- 40.3 The eligible derivatives markets for the Company are set out in Appendix 3.

- 40.4 New eligible derivatives markets may be added to a Sub-fund in accordance with the Regulations and only after the ACD has revised the prospectus accordingly.

- 40.5 Any forward transactions must be with an approved counterparty (eligible institutions, money market institutions etc). A derivatives or forward transaction which would or

# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

could lead to delivery of scheme property to the Depositary in respect of the Company may be entered into only if such scheme property can be held by the Company, and the ACD reasonably believes that delivery of the property pursuant to the transactions will not lead to a breach of the Regulations.

40.6 There is no limit on the amount of the scheme property which may be used for EPM but the transactions must satisfy three broadly-based requirements:

40.6.1 A transaction must reasonably be believed by the ACD to be economically appropriate to the efficient portfolio management of the Company. This means that transactions undertaken to reduce risk or cost (or both) must alone or in combination with other EPM transactions diminish a risk or cost of a kind or level which it is sensible to reduce and transactions undertaken to generate additional capital or income must confer a benefit on the Company or the Sub-fund.

40.6.2 EPM may not include speculative transactions.

40.6.3 The purpose of an EPM transaction for the Company must be to achieve one of the following aims in respect of the Company or a Sub-fund:

- reduction of risk
- reduction of cost
- the generation of additional capital or income

40.6.3.1 Reduction of risk allows for the use of the technique of cross-currency hedging in order to switch all or part of the Company's or Sub-fund's exposure away from a currency the ACD considers unduly prone to risk, to another currency. This aim also permits the use of stock index contracts to change the exposure from one market to another, a technique known as 'tactical asset allocation'.

40.6.3.2 Reduction of cost allows for the use of futures or options contracts, either on specific stocks or on an index, in order to minimise or eliminate the effect of changing prices of stocks to be bought or sold.

40.6.3.3 The aims of reduction of risk or cost, together or separately, allow the ACD on a temporary basis to use the technique of tactical asset allocation. Tactical asset allocation permits the ACD to undertake a switch in exposure by use of derivatives, rather than through sale and purchase of the scheme property. If an EPM transaction for the Company relates to the acquisition or potential acquisition of transferable securities, the ACD must intend that the Company should invest in transferable securities within a reasonable time and the ACD shall thereafter ensure that, unless the position has itself been closed out, that intention is realised within that reasonable time.

40.6.3.4 The generation of additional capital or income for the Company or Sub-fund with no or an acceptably low level of risk means the ACD reasonably believes that the Company or Sub-fund is certain (or certain barring events which are not reasonably foreseeable) to derive a benefit.

The generation of additional capital or income may arise out of taking advantage of price imperfections or from the receipt of a premium for writing of covered call or covered put options (even if the benefit is obtained at the expense of the foregoing of yet greater benefit) or pursuant to stocklending as permitted by the Regulations. The relevant purpose must relate to scheme property; scheme property (whether precisely identified or not) which is to be or is proposed to be acquired for the Company; and anticipated cash receipts of the Company, if due to be received at some time and likely to be received within one month.

40.7 Each EPM transaction must be fully covered 'individually' by scheme property of the right kind (i.e. in the case of exposure in terms of property, appropriate transferable securities or other property; and, in the case of exposure in terms of money, cash, near-cash instruments, borrowed cash or transferable securities which can be sold to realise the appropriate cash). It must also be covered 'globally' (i.e. after providing cover for existing EPM transactions there is adequate cover for another EPM transaction within the scheme property - there can be no gearing). Scheme property and cash can be used only once for cover and, generally, scheme property is not available for cover if it is the subject of a stocklending transaction. The EPM lending transaction in a back to back currency borrowing (i.e. borrowing permitted in order to reduce or eliminate risk arising by reason of fluctuations in exchange rates) does not require cover.

# APPENDIX 3 -

## ELIGIBLE MARKETS

Where permitted by their objective and policy, a Sub-fund may deal in any securities, derivatives or money market instruments on any market that is:

- a) a regulated market; or
- b) a market in an EEA State which is regulated, operates regularly and is open to the public; or
- c) a market which the ACD, after consultation with the Depositary, decides is appropriate for investment of or dealing in the scheme property (see Appendix 2, 7.4 for more detail).

For the purposes of "b" above, the Manager may trade in bonds and other securities issued by non-UK institutions, on the UK OTC Market. Additionally, for "c" above, the markets listed below have been deemed appropriate.

In addition, up to 10% in value of a Sub-fund may be invested in transferable securities and/or derivatives which are not listed on these markets.

### Europe (Non-EEA States)

Croatia	Zagreb Exchange
Switzerland	SIX Swiss Exchange
Turkey	Istanbul Stock Exchange

### Americas

Brazil	BM&F Bovespa
Canada	TSX (forms part of the TMX Group)
Mexico	Bolsa Mexicana de Valores (Mexican Stock Exchange)
United States	New York Stock Exchange NYSE Mkt LLC Boston Stock Exchange (BSE) Chicago Stock Exchange (CHX) The NASDAQ Stock Market US OTC market regulated by FINRA National Stock Exchange NYSE Arca NASDAQ OMX PHLX The market in transferable securities issued by or on behalf of the Government of the United States of America conducted through those persons for the time being recognised and supervised by the Federal Reserve Bank of New York and known as primary dealers.

### Africa

South Africa	The JSE Securities Exchange
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### Far East

Australia	Australian Securities Exchange (ASX)
China	Shanghai Stock Exchange (B shares) Shenzhen Stock Exchange (B shares)
Hong Kong	Hong Kong Exchanges Growth Global Enterprise Market (GEM)
India	Bombay Stock Exchange Ltd The National Stock Exchange of India
Indonesia	Indonesian Stock Exchange (IDX)
Japan	Tokyo Stock Exchange Nagoya Stock Exchange Sapporo Stock Exchange JASDAQ
Korea	Korea Exchange Incorporated (KRX)
Malaysia	Bursa Malaysia Berhad
New Zealand	New Zealand Stock Exchange
Philippines	Philippine Stock Exchange (PSE)
Singapore	Singapore Exchange (SGX)
Sri Lanka	Colombo Stock Exchange
Taiwan	Taiwan Stock Exchange Gre Tai (Taiwan OTC)
Thailand	The Stock Exchange of Thailand (SET)

### Middle East

Israel	Tel Aviv Stock Exchange (TASE)
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For the purposes of "c" above, the derivatives markets listed below have been deemed appropriate.

### Europe (Non-EEA States)

Switzerland	EUREX
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### Americas

Canada	The Montreal Exchange
United States	CME Group Chicago Board Options Exchange (CBOE)

### Africa

South Africa	The JSE Securities Exchange
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### Far East

Australia	Australian Securities Exchange (ASX)
Hong Kong	Hong Kong Exchanges
Japan	Osaka Securities Exchange
Korea	Korea Exchange Incorporated (KRX)
New Zealand	New Zealand Futures Exchange
Singapore	Singapore Exchange (SGX)
Thailand	Thailand Futures Exchange (TFEX)

# APPENDIX 4 -

## INFORMATION FOR NON-UK INVESTORS

### 4.1 M&G Corporate Bond Fund.

#### Investment Objective

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

#### Investment Policy

The Fund invests mainly in sterling denominated corporate debt instruments. The Fund's exposure to corporate debt may be gained through the use of derivatives. Any currency exposures within the Fund may be managed by currency hedges into sterling. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 31 January (Interim); 30 April (Interim); 31 July (Interim)
Available share classes/types	Euro Class A – Gross Accumulation Euro Class B† – Gross Accumulation Euro Class C – Gross Accumulation

#### Investment minima

Lump sum initial investment	Class A: €1,000 Class B†: €1,000 Class C: €500,000
Lump sum subsequent investment	Class A: €75 Class B†: €250 Class C: €50,000
Lump sum holding	Class A: €1,000 Class B†: €1,000 Class C: €500,000
Regular saving (per month)	Class A: €75 Class B†: €75 Class C: n/a
Redemption	Class A: €75 Class B†: €150 Class C: €50,000

#### Charges and Expenses

Initial charge	Class A: 3.25% Class B†: nil Class C: 1.25%
Redemption charge	Class A: n/a Class B†: 1% Class C: n/a
ACD's annual remuneration	Class A: 1.25% Class B†: 1.5% Class C: 0.5%
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future: market conditions will largely dictate the timing of the launch.

# APPENDIX 4 -

## INFORMATION FOR NON-UK INVESTORS

### 4.2 M&G Emerging Markets Bond Fund.

#### Investment Objective

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

#### Investment Policy

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

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

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types	Euro Class A – Gross Accumulation and Gross Income Euro Class B – Gross Accumulation Euro Class C – Gross Accumulation and Gross Income* U.S. Dollar Class A – Gross Accumulation and Gross Income* U.S. Dollar Class C – Gross Accumulation and Gross Income* Swiss Franc Class A – Gross Accumulation Swiss Franc Class C – Gross Accumulation

#### Investment minima (Euro Share classes)

Lump sum initial investment	Class A: €1,000 Class B: €1,000 Class C: €500,000
Lump sum subsequent investment	Class A: €75 Class B: €75 Class C: €50,000
Lump sum holding	Class A: €1,000 Class B: €1,000 Class C: €500,000
Regular saving (per month)	Class A: n/a Class B: n/a Class C: n/a
Redemption	Class A: €75 Class B: €75 Class C: €50,000

#### Investment minima (Swiss Franc Share classes)

Lump sum initial investment	Class A: CHF1,000 Class C: CHF500,000
Lump sum subsequent investment	Class A: CHF75 Class C: CHF50,000
Lump sum holding	Class A: CHF1,000 Class C: CHF500,000
Regular saving (per month)	Class A: n/a Class C: n/a
Redemption	Class A: CHF75 Class C: CHF50,000

#### Investment minima (U.S. Dollar Share classes)

Lump sum initial investment	Class A: \$1,000 Class C: \$500,000
Lump sum subsequent investment	Class A: \$75 Class C: \$50,000
Lump sum holding	Class A: \$1,000 Class C: \$500,000
Regular saving (per month)	Class A: n/a Class C: n/a
Redemption	Class A: \$75 Class C: \$50,000

#### Charges and Expenses (Euro Share classes)

Initial charge	Class A: 4.00% Class B: 1.25% Class C: 1.25%
Redemption charge	Class A: n/a Class B: n/a Class C: n/a
ACD's annual remuneration	Class A: 1.25% Class B: 1.75% Class C: 0.75%

#### Charges and Expenses (Swiss Franc Share Classes)

Initial charge	Class A: 4.00% Class C: 1.25%
Redemption charge	Class A: n/a Class C: n/a
ACD's annual remuneration	Class A: 1.25% Class C: 0.75%

#### Charges and Expenses (US Dollar Share Classes)

Initial charge	Class A: 4.00% Class C: 1.25%
Redemption charge	Class A: n/a Class C: n/a
ACD's annual remuneration	Class A: 1.25% Class C: 0.75%
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† These Share Classes will be launched on 8 August 2014.

# APPENDIX 4 -

## INFORMATION FOR NON-UK INVESTORS

### 4.3 M&G European Corporate Bond Fund.

#### Investment Objective

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

#### Investment Policy

The Fund invests mainly in investment grade corporate bonds denominated in any European currency. The Fund may also invest in high yield corporate bonds, government and public securities denominated in any European currency. The Fund's exposure to bonds, government and other public securities may be gained through the use of derivatives. The Fund may also invest in other assets, including collective investment schemes, other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the Fund may be managed by currency hedges in European Currencies.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 31 January (Interim); 30 April (Interim); 31 July (Interim)
Available share classes/types	Euro Class A – Gross Accumulation and Gross Income Euro Class B† – Gross Accumulation Euro Class C – Gross Accumulation and Gross Income* U.S. Dollar Class A-H (hedged) – Gross Accumulation* and Gross Income* U.S. Dollar Class C-H (hedged) – Gross Accumulation* and Gross Income* Swiss Franc Class A-H (hedged) – Gross Accumulation Swiss Franc Class C-H (hedged) – Gross Accumulation

#### Investment minima (Euro Share Classes)

Lump sum initial investment	Class A: €1,000 Class B: €1,000 Class C: €500,000
Lump sum subsequent investment	Class A: €75 Class B: €250 Class C: €25,000
Lump sum holding	Class A: €1,000 Class B: €1,000 Class C: €500,000
Regular saving (per month)	Class A: €75 Class B: €75 Class C: n/a
Redemption	Class A: €75 Class B: €150 Class C: €50,000

#### Investment minima (U.S. Dollar Share Classes)

Lump sum initial investment	Class A-H: \$1,000 Class C-H: \$500,000
Lump sum subsequent investment	Class A-H: \$75 Class C-H: \$50,000
Lump sum holding	Class A-H: \$1,000 Class C-H: \$500,000
Regular saving (per month)	Class A-H: n/a Class C-H: n/a
Redemption	Class A-H: \$75 Class C-H: \$50,000

#### Investment minima (Swiss Franc Share Classes)

Lump sum initial investment	Class A-H: CHF 1,000 Class C-H: CHF 500,000
Lump sum subsequent investment	Class A-H: CHF 75 Class C-H: CHF 25,000
Lump sum holding	Class A-H: CHF 1,000 Class C-H: CHF 500,000
Regular saving (per month)	Class A-H: n/a Class C-H: n/a
Redemption	Class A-H: CHF 75 Class C-H: CHF 50,000

#### Charges and Expenses (Euro, U.S. Dollar and Swiss Franc Share Classes)

Initial charge	Class A: 3.25% Class A-H: 3.25% Class B†: nil Class C: 1.25% Class C-H: 1.25%
Redemption charge	Class A: n/a Class A-H: n/a Class B†: 1% Class C: n/a Class C-H: n/a
ACD's annual remuneration	Class A: 1% Class A-H: 1% Class B†: 1.5% Class C: 0.5% Class C-H: 0.5%
ACD's share class hedging fee	Class A-H: 0.01 to 0.055% Class C-H: 0.01 to 0.055%
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	13 January 2003
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future: market conditions will largely dictate the timing of the launch.

\* These Share Classes will be launched on 8 August 2014.

# APPENDIX 4 -

## INFORMATION FOR NON-UK INVESTORS

### 4.4 M&G European High Yield Bond Fund.

#### Investment Objective

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

#### Investment policy

The Fund mainly invests in higher yielding debt instruments denominated in any European currency and will normally be managed to give investors exposure to European currencies. The Fund's exposure to higher yielding debt instruments may be gained through the use of derivatives. The Fund may also invest in other assets including collective investment schemes, government and public securities and other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the Fund may be managed by currency hedges in European currencies.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 31 January (Interim); 30 April (Interim); 31 July (Interim)
Available share classes/types	Euro Class A – Gross Accumulation and Gross Income Euro Class B† – Gross Accumulation Euro Class C – Gross Accumulation and Gross Income* U.S Dollar Class A-H (hedged) – Gross Accumulation* and Gross Income* U.S. Dollar Class C-H (hedged) – Gross Accumulation* and Gross Income*

#### Investment minima (Euro Share Classes)

Lump sum initial investment	Class A: €1,000 Class B: €1,000 Class C: €500,000
Lump sum subsequent investment	Class A: €75 Class B: €75 Class C: €25,000
Lump sum holding	Class A: €1,000 Class B: €1,000 Class C: €500,000
Regular saving (per month)	Class A: €75 Class B: n/a Class C: n/a
Redemption	Class A: €75 Class B: €75 Class C: €25,000

#### Investment minima (U.S. Dollar Share Classes)\*

Lump sum initial investment	Class A-H: \$1,000 Class C-H: \$500,000
Lump sum subsequent investment	Class A-H: \$75 Class C-H: \$50,000
Lump sum holding	Class A-H: \$1,000 Class C-H: \$500,000
Regular saving (per month)	Class A-H: n/a Class C-H: n/a
Redemption	Class A-H: \$75 Class C-H: \$50,000

#### Charges and Expenses (Euro and U.S. Dollar\* Share Classes)

Initial charge	Class A: 3.25% Class A-H: 3.25% Class B: 1.25% Class C: 1.25% Class C-H : 1.25%
Redemption charge	Class A: n/a Class A-H: 3.25% Class B: n/a Class C: n/a Class C-H: n/a
ACD's annual remuneration	Class A: 1.25% Class A-H: 1.25% Class B: 1.75% Class C: 0.75% Class C-H: 0.75%
ACD's share class hedging fee	Class A-H: 0.01% to 0.055% Class C-H: 0.01% to 0.055%
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future: market conditions will largely dictate the timing of the launch.

\* These Share Classes will be launched on 8 August 2014

# APPENDIX 4 -

## INFORMATION FOR NON-UK INVESTORS

### 4.5 M&G Global Government Bond Fund.

#### Investment Objective

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

#### Investment Policy

The portfolio will mainly consist of investment grade government debt securities, including government guaranteed debt securities, and will be invested on a global basis. The Fund's exposure to investment grade government debt may be gained through the use of derivatives. The Fund may also invest in other government and public securities, collective investment schemes, other transferable securities, other debt instruments, cash and near cash, deposits, warrants, money market instruments and other derivative instruments. The Fund may use derivatives for Efficient Portfolio Management purposes.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 30 April (Interim)
Available share classes/types	Euro Class A – Gross Accumulation* and Gross Income* Euro Class C – Gross Accumulation* and Gross Income* U.S. Dollar Class A – Gross Accumulation* and Gross Income* U.S. Dollar Class C – Gross Accumulation* and Gross Income* Swiss Franc Class A – Gross Accumulation* Swiss Franc Class C – Gross Accumulation*

#### Investment minima (Euro Share Classes)\*

Lump sum initial investment	Class A: €1,000 Class C: €500,000
Lump sum subsequent investment	Class A: €75 Class C: €25,000
Lump sum holding	Class A: €1,000 Class C: €500,000
Redemption	Class A: €75 Class C: €25,000

#### Investment minima (U.S. Dollar Share Classes)\*

Lump sum initial investment	Class A: \$1,000 Class C: \$500,000
Lump sum subsequent investment	Class A: \$75 Class C: \$50,000
Lump sum holding	Class A: \$1,000 Class C: \$500,000
Redemption	Class A: \$75 Class C: \$50,000

#### Investment minima (Swiss Franc Share Classes)\*

Lump sum initial investment	Class A: CHF 1,000 Class C: CHF 500,000
Lump sum subsequent investment	Class A: CHF 75 Class C: CHF 25,000
Lump sum holding	Class A: CHF 1,000 Class C: CHF 500,000
Regular saving (per month)	Class A: n/a Class C: n/a
Redemption	Class A: CHF 75 Class C: CHF 50,000

#### Charges and Expenses (Euro, U.S. Dollar and Swiss Franc Share Classes)\*

Initial charge	Class A: 4.00% Class C: 1.25%
Redemption charge	Class A: n/a Class C: n/a
ACD's annual remuneration	Class A: 1.00% Class C: 0.50%
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	U.S. Dollar

\* These Share Classes will be launched on 22 August 2014.

The Fund was created as a result of the conversion of The M&G International Sovereign Bond Fund unit trust which had been launched on 4 October 1999. The last significant change to the Fund's investment objective and/or investment policy occurred on 1 July 2014, when it was also renamed.

# APPENDIX 4 -

## INFORMATION FOR NON-UK INVESTORS

### 4.6 M&G Recovery Fund

#### Investment Objective and Policy

The Fund predominantly invests in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. The sole aim of the Fund is capital growth. There is no particular income yield target.

Accounting reference date:	30 June
Income allocation date:	On or before 31 October (Final); 31 January (Interim); 30 April (Interim); 31 July (Interim)
Available share classes/types	Euro Class A – Net Accumulation and Net Income† Euro Class B – Net Accumulation and Net Income† Euro Class C – Net Accumulation and Net Income†

#### Investment minima

Lump sum initial investment	Class A: €1,000 Class B: €1,000 Class C: €500,000
Lump sum subsequent investment	Class A: €75 Class B: €250 Class C: €25,000
Lump sum holding	Class A: €1,000 Class B: €1,000 Class C: €500,000
Regular saving (per month)	Class A: €75 Class B: €75 Class C: n/a
Redemption	Class A: €75 Class B: €150 Class C: €25,000

#### Charges and Expenses

Initial charge	Class A: 5.25% Class B: nil Class C: 3.25%
Redemption charge	Class A: n/a Class B: 1% Class C: n/a
ACD's annual remuneration	Class A: 1.5% Class B: 1.75% Class C: 0.75%
ACD's remuneration for Administrative and Registration services:	0.15% of "NAV" per annum
Investment Manager:	M&G Investment Management Limited
Valuation point:	12.00 noon UK time
Launch date:	7 March 2002
Valuation Currency	Sterling

† This share class may be launched by the ACD at some point in the future: market conditions will largely dictate the timing of the launch

#### Note to investors in France

The M&G Recovery Fund is eligible to participate in the savings plan in France (PEA). The Fund is required, at all times, to invest at least 75% of its net assets in securities which are eligible for the PEA..

# APPENDIX 4a -

## ADDITIONAL INFORMATION FOR INVESTORS IN LUXEMBOURG

This Chapter contains additional information relevant for investors resident in Luxembourg. This Appendix forms part of the Prospectus to which it is attached and should be read in conjunction therewith.

If you require any further information or if you are in any doubt regarding the contents of this chapter, please consult your professional adviser or contact the Service Hotline of the Global Distributor on telephone number: +49 (0) 69 1338 6767

Please note that the following details on the settlement of share transactions might not apply to you if you acquire shares through a bank or an investment fund platform. In this case please contact your bank regarding the terms of settlement which will provide you with settlement confirmations and further information on your securities account. In such cases M&G International Investments Limited will gladly provide you with general information on the M&G investment funds registered for public distribution in Luxembourg.

### 1 Shareholder Service

Any request for the issue, redemption or switching of shares as well as any queries or complaints with respect to investments in the Company should be forwarded in German or English language to:

M&G International Investments Limited

Branch Office Germany

mainBuilding

Taunusanlage 19

60325 Frankfurt am Main

info@mandg.de

Tel.: + 49 (0) 69 1338 6767

Fax.: + 49 (0) 69 1338 6731

### 2 Share Classes available

Currently, private investors in Luxembourg may invest in the available share classes which are listed in appendix 4 of the prospectus.

### 3 Initial Investments

Investors in Luxembourg who wish to invest in Sub-funds of the Company should complete and sign the Application Form and mail it to M&G International Investments Limited at the address referenced above. For further information on application forms please contact your local financial intermediary.

Shares are registered in the name of M&G International Investments Nominee Limited, Laurence Pountney Hill, London EC4R 0HH (the "Nominee"), for the account of the investor. This nominee service is free of charge.

Payment for shares should be made by bank transfer to the Company's account at the paying agent. For this purpose, a bank transfer form is attached to the application form. The minimum amount for any initial investment per fund and share class is shown in appendix 4. Please note that M&G International Investments Limited does not accept cheques or cash.

Provided that M&G International Investments Limited has accepted an application prior to 9.00 am German time on a business day and that subscription monies have been received by J.P. Morgan Bank Luxembourg S.A. (see below) on the preceding business day, the purchase will be effected at the price per share determined at the next following valuation point.

It should be noted that J.P. Morgan Bank Luxembourg S.A. may only receive subscription proceeds once a customer account has been opened for the relevant customer at M&G International Investments Limited.

Investors will receive a contract note giving details of their purchase, including the number of shares held by the nominee for their account.

### 4 Subsequent Investments

Subsequent investments can be made without the completion of another application form by simply transferring the amount to be invested to the paying agent account. Any such transfer must however state the investor's account number (which is stated on each contract note), the name of the investor/beneficiary, the name of the Sub-fund into which the money shall be invested and the respective share class. In the absence of such instructions, it will not be possible to process the purchase order and the money will be returned without interest and at the expense of the recipient. The minimum amount for a subsequent investment per fund and share class is shown in appendix 4.

For saving and redemption plans, the investor will receive semi-annual confirmation from M&G International Investments Limited.

Investors should note that any subsequent investment in shares of the Company is subject to the provisions of the then current prospectus, which can be obtained from M&G International Investments Limited.

### 5 Redemption

Investors may redeem their shares by forwarding a redemption request in German or English language to M&G International Investments Limited. Requests which are received by M&G International Investments Limited on a business day in Germany prior to 11.30 am German time will be processed at the next following valuation point.

The minimum amount for any redemption of shares per fund and share class is shown in appendix 4.

Redemption proceeds will be paid to investors by bank transfer within 5 days counting from the day on which the redemption request was processed. Investors should take into account that the processing time needed by banks involved in such transfers may differ and that it can therefore not be guaranteed that the redemption proceeds will be credited to the investor's bank account within the aforementioned period.

The redemption of shares may not result in the value of the account falling below the minimum holding per share class which is shown in appendix 4.

If as a result of a redemption the value of the account falls below these minimum holding thresholds, M&G reserves the right to consider the respective request as a request for the redemption of all shares held in such account.

### 6 Switching

Investors have the right to switch shares held in one Sub-fund of the Company for shares in another Sub-fund of the Company subject to the provisions of the prospectus and the minimum holding thresholds per share class outlined in appendix 4.

# APPENDIX 4a -

## ADDITIONAL INFORMATION FOR INVESTORS IN LUXEMBOURG

Switching requests may be forwarded in German or English language to M&G International Investments Limited. Any such request received by M&G International Investments Limited on a business day in Berlin prior to 11.30 am German time will be processed at the next following valuation point.

### 7 Transfer Agent

By prior arrangement with M&G International Investments Limited, deal requests may be sent to the Transfer Agent, RBC Investor Services. Such deal requests received by the Transfer Agent prior to 11.30 a.m. Luxembourg time will be processed at that day's valuation point and calculated price.

Royal Bank of Canada – RBC Investor Services Bank S.A.

14 Porte de France

L-4360 Esch-sur-Alzette

Luxembourg

Dealing fax no.: +352 2460 9901

### 8 Paying Agents

Luxembourg

J.P. Morgan Bank Luxembourg S.A.

European Bank & Business Center,

6 c route de Trèves,

2633 Senningerberg,

Luxembourg

The aforementioned bank has assumed the function of the Paying and Information Agent in Luxembourg.

Therefore, the Company's Prospectus and Instrument of Incorporation, the annual and semi-annual reports as well as the NAV and the redemption prices of the shares are available at its office. During ordinary business hours, the documents listed in Section 39.4 "Documents of the Company" may be inspected at the premises of the Paying and Information Agent. The Paying and Information Agent also makes available any additional information, which might be notified to shareholders at the Company's registered office in London, UK.

Subscription monies may be sent to the Paying and Information Agents by electronic transfer and any cleared amounts are forwarded for the benefit of the investor to the Company without undue delay.

The forwarding of subscription monies is only possible, if they can be attributed to an existing investment account. In the case of a new investment account, the Paying and Information Agent must be notified by M&G International Investments Limited that an Account Application has been received. In the event that such Account Application is not received within three weeks after receipt of cleared monies at the respective Paying and Information Agent, M&G may instruct the Paying Agent to repay the subscription monies without interest and at the expense of the recipient.

Upon their request, shareholders in Luxembourg may receive redemption proceeds, dividend payments and any other payments through the Luxembourg Paying Agent.

Requests for the redemption and switching of shares may be sent to the Luxembourg Paying Agents who will forward such requests to the Company.

### 9 Publications

The prices for shares in Sub-funds of the Company will be published on the M&G website ([www.MandG.com](http://www.MandG.com)) and a selection will be published in the Luxembourg newspaper "Tagesblatt".

In addition, this data will also be published in such media as the Fund deems appropriate from time to time.

### 10 Taxation in Luxembourg

Under current Luxembourg law, there are no Luxembourg ordinary income, capital gains, estate or inheritance taxes payable by the Company.

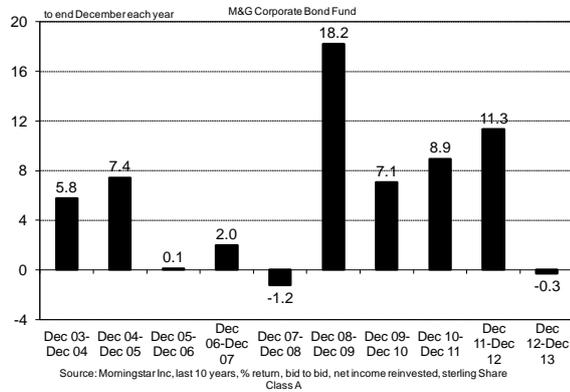
Under current Luxembourg law, there are no Luxembourg ordinary income, capital gains, estate or inheritance taxes by the Shareholders in respect of their Shares except by Shareholders who are domiciled in, or are residents of or have a permanent establishment in the Grand Duchy of Luxembourg and except by certain former Luxembourg residents.

# APPENDIX 5 -

## PERFORMANCE BAR CHARTS

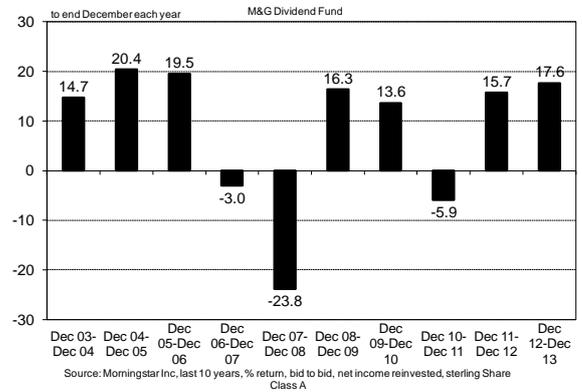
Past performance is not a guide to future performance.

### M&G Corporate Bond Fund Bar Chart



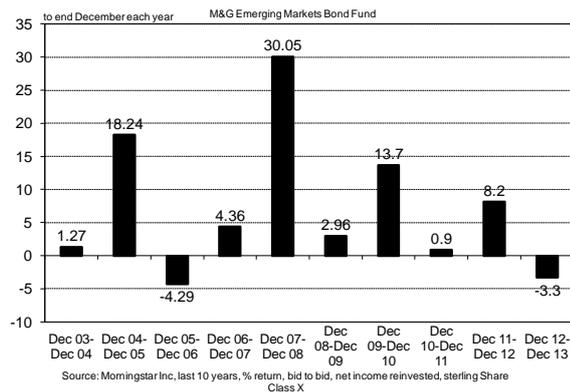
The cumulative performance over the last 10 years is 75.3%

### M&G Dividend Fund Bar Chart



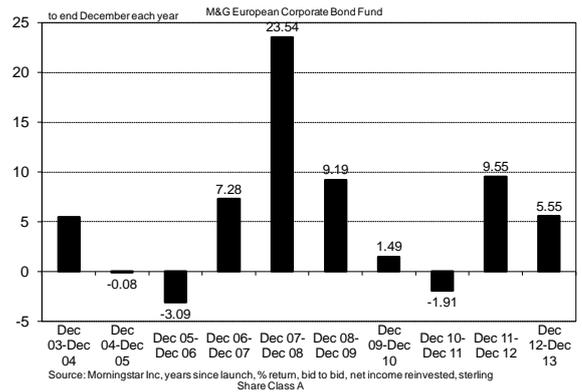
The cumulative performance over the last 10 years is 106.2%

### M&G Emerging Markets Bond Fund Bar Chart



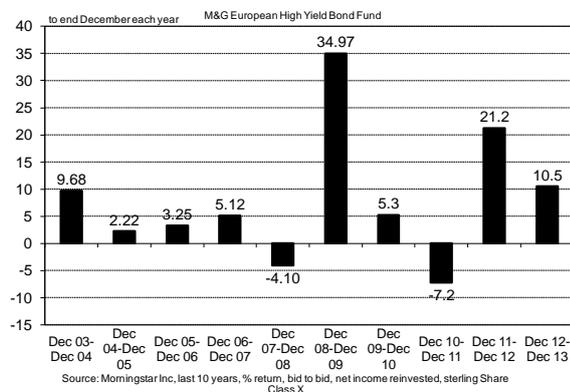
The cumulative performance over the last 10 years is 92.0%

### M&G European Corporate Bond Fund Bar Chart



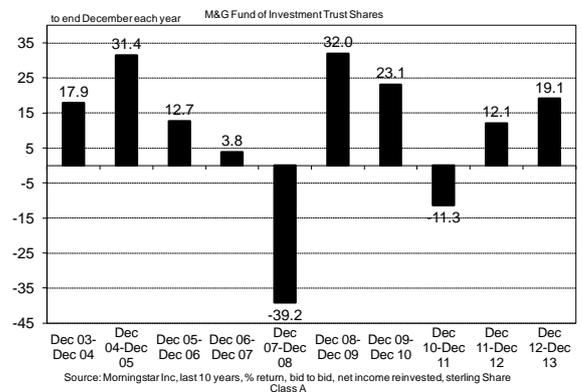
The cumulative performance since launch is 70.2%

### M&G European High Yield Bond Bar Chart



The cumulative performance over the last 10 years is 106.1%

### M&G Fund of Investment Trust Shares Bar Chart



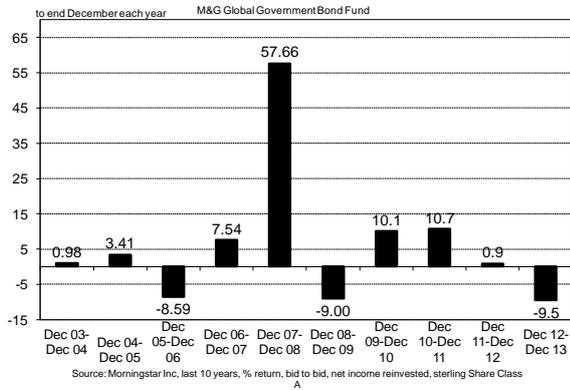
The cumulative performance over the last 10 years is 112.2%

# APPENDIX 5 -

## PERFORMANCE BAR CHARTS

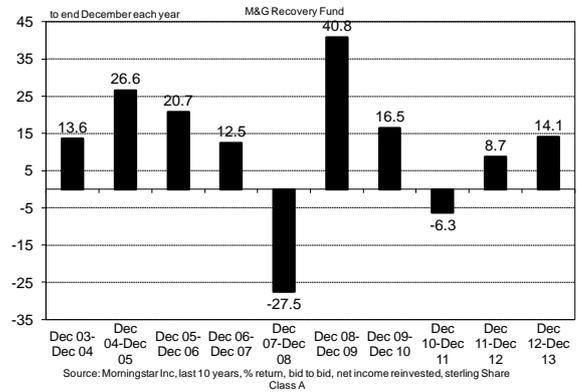
Past performance is not a guide to future performance.

### M&G Global Government Bond Fund Bar Chart



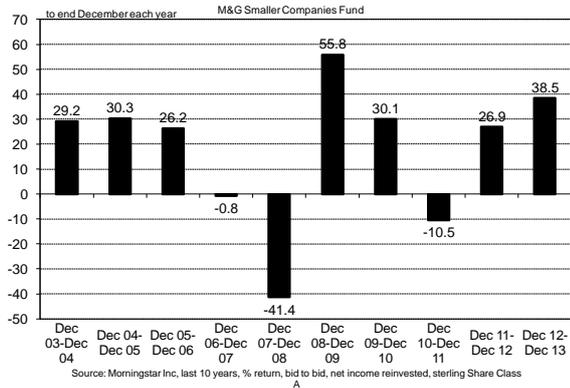
The cumulative performance over the last 10 years is 64.0%

### M&G Recovery Fund Bar Chart



The cumulative performance over the last 10 years 169.9%

### M&G Smaller Companies Fund Bar Chart



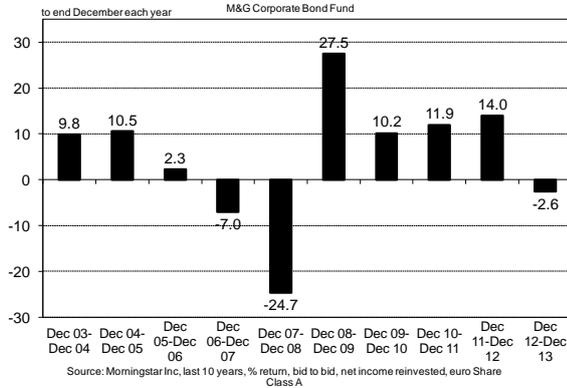
The cumulative performance over the last 10 years is 293.7%

# APPENDIX 5a -

## EURO PERFORMANCE BAR CHARTS

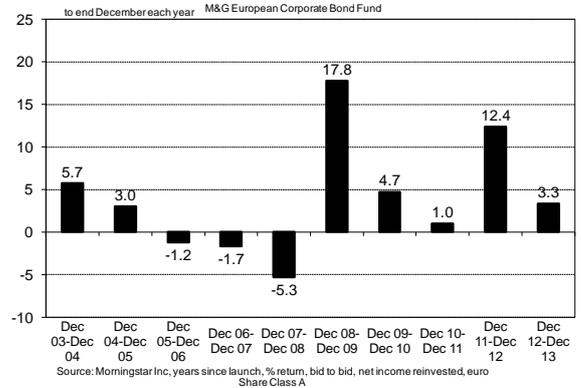
Past performance is not a guide to future performance

### M&G Corporate Bond Fund Bar Chart



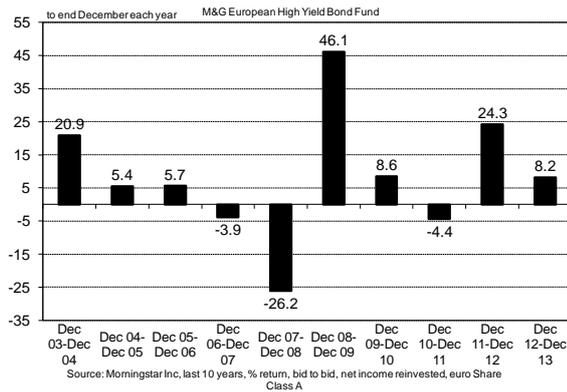
The cumulative performance over the last 10 years is 51.8%

### M&G European Corporate Bond Fund Bar Chart



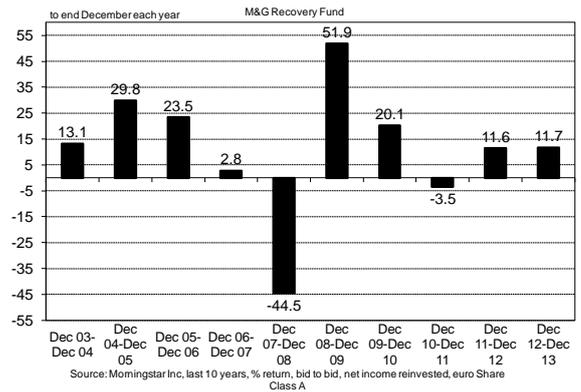
The cumulative performance since launch is 44.8%

### M&G European High Yield Bond Fund Bar Chart



The cumulative performance over the last 10 years is 94.7%

### M&G Recovery Fund Bar Chart



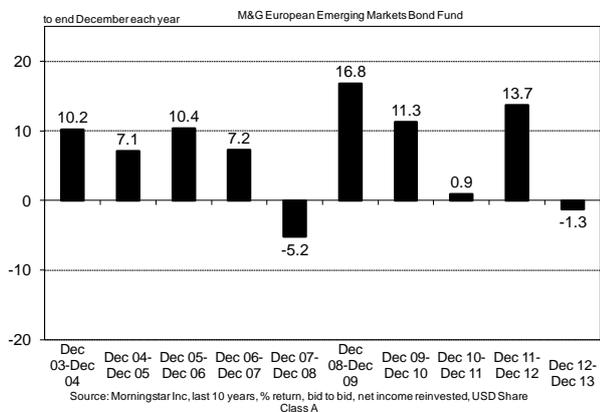
The cumulative performance over the last 10 years is 127.3%

# APPENDIX 5b -

## U.S. DOLLAR PERFORMANCE BAR CHARTS

Past performance is not a guide to future performance

### M&G Emerging Markets Bond Fund Chart



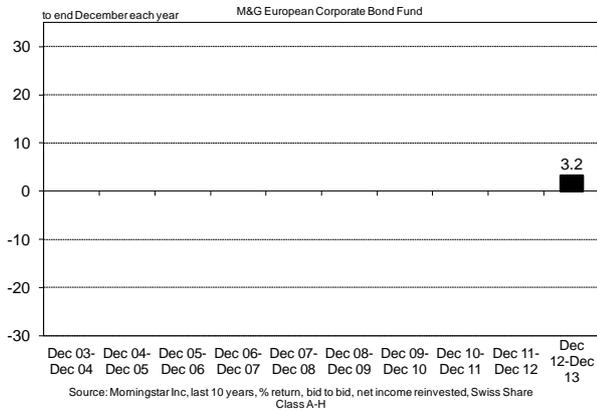
The cumulative performance over the last 10 years is 95.1%

# APPENDIX 5c -

## SWISS FRANC PERFORMANCE BAR CHARTS

Past performance is not a guide to future performance

### European Corporate Bond Fund Chart



The cumulative performance since launch is 4.4%

# DIRECTORY

## M&G INVESTMENT FUNDS (3)

### The Company and Head Office:

M&G Investment Funds (3)  
Laurence Pountney Hill  
London EC4R 0HH

### Authorised Corporate Director:

M&G Securities Limited  
Laurence Pountney Hill  
London EC4R 0HH

### Investment Managers:

M&G Investment Management Limited  
Laurence Pountney Hill  
London EC4R 0HH

### Custodian:

State Street Bank and Trust Company  
20 Churchill Place  
Canary Wharf  
London  
E14 5HJ

### Depositary:

National Westminster Bank plc  
Trustee & Depositary Services  
Younger Building  
1st Floor  
Redheughs Avenue  
Edinburgh  
EH12 9RH

### Registrar:

International Financial Data Services (UK) Limited  
PO Box 9039  
Chelmsford  
CM99 2WA

### Auditor:

Ernst & Young LLP  
10 George Street  
Edinburgh  
EH2 2DZ

