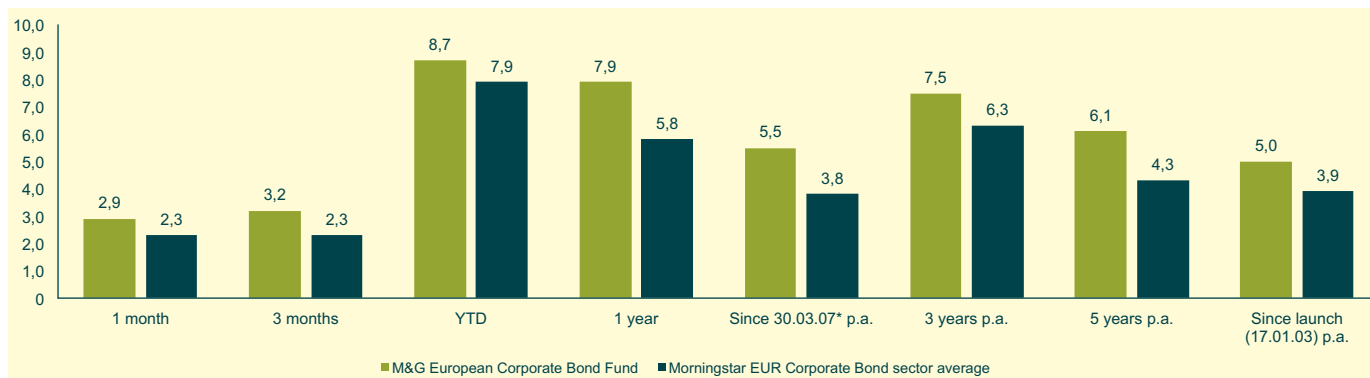


Key summary points

- European corporate bonds performed well during July as investors sought refuge in safer assets following the release of mixed economic data and ongoing concerns in the eurozone.
- Returns were further boosted by the fund's exposure to BBB rated assets and good credit selection.
- Fund manager Stefan Isaacs added to existing names in his preferred defensive sectors such as cables, telecoms and insurers. He maintains his cautious view on financials.



Fund performance (total return, in euro terms, %)



* Stefan Isaacs took over as fund manager on 31 March 2007.

Performance review

Investment grade European corporate bonds performed well in July against an uncertain economic backdrop and ongoing concerns in the eurozone. Earlier in the month the IMF made downward revisions to its global growth forecasts and investors once again sought refuge in safe havens such as US, UK and German government bonds, where the yields all reached new lows.

Concerns escalated later in the month with fears that Spain might need a full bailout when it became apparent that the country's heavily indebted regional governments would likely need rescuing. The market reacted by driving Spanish 10-year bond yields to unprecedented highs, peaking at over 7.5%.

However, corporate bond prices rallied at the end of July following comments made by ECB president Mario Draghi. The market saw these as an indication that the ECB might intervene to buy Spanish and Italian sovereign bonds in an effort to control excessive borrowing costs.

Spreads on European investment grade corporate bonds tightened from 228 to 220 basis points, as measured by the Merrill Lynch EMU Corporate Index, and returns were further boosted by falling German government bond yields.

The performance of the fund was helped by its robust credit selection process which focuses on solid businesses with strong balance sheets. The fund's significant exposure to BBB rated credit and German bunds was also beneficial as both performed strongly.

Key changes

Stefan maintains his negative view on financials, and European banks in particular, although he continues to be willing to invest where he believes he is being adequately paid for the risks being taken. He prefers banks based in economically stronger countries and the fund maintains its exposure to quality names such as JP Morgan, HSBC and Commerzbank. He also keeps his positive outlook on insurers and

added to his positions in reinsurers Hanover Re and Swiss Re.

Due to his ongoing concerns with the unresolved issues in the eurozone, Stefan still favours issuers based in stronger European countries and within defensive sectors such as consumer non-cyclical and media. He sees many attractively priced companies within the BBB rating band and made some additional purchases in this area, including Dutch telecom provider KPN and British transport company National Express.

Within the high yield sector, Stefan continues to see value in higher rated BB names and he increased his exposure slightly in this area. In particular, he favours cable and telecom companies and made further purchases in Swiss mobile and broadband provider Sunrise Communications. He also switched his euro-denominated holding in South African paper manufacturer Sappi to US dollar denominated bonds of a similar maturity. In addition to providing a more attractive yield, this also gave exposure to a currency which he views more favourably.

Stefan slightly decreased his exposure to the UK over the month, due to its deteriorating economic outlook, whilst increasing his exposure to Germany with additional purchases of German government bonds which he believes could further benefit from their perceived safe haven status. He marginally increased duration to a neutral position of 3.9 years.

Key information

Fund manager tenure from	30 March 2007
Fund size (millions)	€1.672,84
Yield to maturity	
(excluding derivatives)*	3,03%
No. of issuers	216
Modified duration (years)	3,9
Volatility†	4,28%
Average credit rating (as at 30.06.12)	A-
Nominated OEIC Share Class	Euro Class C

* Net of fund expenses.

† Source: Morningstar, three-year annualised volatility.

Bond markets, total return (%)

	July 12
US Treasuries	1,1
UK government bonds	2,1
German government bonds	2,1
Sterling investment grade corporate bonds	4,3
Euro investment grade corporate bonds	2,3
Euro high yield corporate bonds	2,1

Source: Merrill Lynch indices

Asset breakdown (%)

	Physical	CDS short	CDS long	Net
Government bonds	11,1	-0,9	2,5	9,0
Investment grade bonds	73,1	-0,9	4,6	76,8
High yield bonds	8,4	0,0	0,6	9,0
Equities	0,0	0,0	0,0	0,0
Loans	0,0	0,0	0,0	0,0
Alternatives	0,0	0,0	0,0	0,0
Other	5,3	0,0	0,0	5,3
Cash	2,2	0,0	0,0	0,0

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

Cash may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

Sources of performance data: Morningstar, Inc., as at 31 July 2012, euro class C shares, gross income reinvested, bid to bid basis.

For Italy, please note that the performance stats are quoted gross of Italian tax on capital gains. All other statistics from M&G internal sources, as at 31 July 2012 unless indicated otherwise. **Prices may fluctuate and you may not get back your original investment. Telephone calls may be recorded. This document is designed for investment professionals' use only, not for onward distribution to any other person or entity. For Switzerland: Distribution of this document in or from Switzerland is not permissible with the exception of the distribution to qualified investors according to the Swiss Collective Investment Schemes Act, the Swiss Collective Investment Schemes Ordinance and the respective Circular issued by the Swiss supervisory authority ("Qualified Investors"). Supplied for the use by the initial recipient (provided it is a Qualified Investor) only.** In Spain the M&G Investment Funds are registered for public distribution under Art. 15 of Act 35/2003 on Collective Investment Schemes as follows: M&G Investment Funds (1) reg. no 390, M&G Investment Funds (2) reg. no 601, M&G Investment Funds (3) reg. no 391, M&G Investment Funds (5) reg. no 972, M&G Investment Funds (7) reg. no 541, M&G Investment Funds (9) reg. no 930, M&G Global Dividend Fund reg. no 713 M&G Dynamic Allocation Fund reg. no 843, M&G Global Macro Bond Fund reg. no 1056 and M&G Optimal Income Fund reg. no 522. The collective investment schemes referred to in this document (the "Schemes") are open-ended investment companies with variable capital, incorporated in England and Wales. In the Netherlands, all funds referred to, with the exception of M&G Investment Funds (2), M&G Investment Funds (5), M&G Investment Funds (9) and the M&G Dynamic Allocation Fund, are registered with the Dutch regulator, the AFM. This information is not an offer or solicitation of an offer for the purchase of investment shares in one of the Funds referred to herein. Purchases of a Fund should be based on the current prospectus. The prospectus, Key Investor Information Document (KIID), annual report and subsequent semi-annual report, are available free of charge, in paper form, from the ACD: M&G Securities Limited, Laurence Pountney Hill, London, EC4R 0HH, GB, or one of the following: M&G International Investments Limited, German branch, Bleidenstraße 6-10, D-60311 Frankfurt am Main, the German paying agent J.P. Morgan AG, Junghofstraße 14, D-60311 Frankfurt am Main, the Austrian paying agent, Raiffeisen Bank International A.G., Am Stadtpark 9, A-1030 Wien, the Luxembourg paying agent, J.P. Morgan Bank Luxembourg S.A., European Bank & Business Center, 6 c route de Treves, 2633 Senningerberg, Luxembourg, the Danish paying agent, Nordea Bank Danmark A/S Issuer Services, Securities Services, Hermes Hus, Helgeshøj Allé 33, Postbox 850, DK-0900, Copenhagen C, Denmark, Allfunds Bank, Calle Estafeta, No 6 Complejo Plaza de la Fuente, La Moraleja 28109, Alcobendas, Madrid, M&G International Investments Limited, 34 Avenue Matignon, 75008, Paris, France or from the French centralising agent of the Fund: RBC Dexia Investors Services Bank France. For Switzerland: Please refer to M&G International Investments Ltd., Bleidenstraße 6-10, D-60311 Frankfurt am Main or, for Sweden, from the paying agent, Skandinaviska Enskilda Banken AB (publ), Sergels Torg 2, 106 40 Stockholm, Sweden. For Italy, they can also be obtained from one of the appointed paying agents, details of which can be found by visiting the contact section on the following website: www.mandg-investments.it. **Before subscribing you should read the prospectus**, which includes investment risks relating to these funds. This financial promotion is published by M&G International Investments Ltd. Registered Office: Laurence Pountney Hill, London EC4R 0HH, authorised and regulated by the Financial Services Authority and registered with the CNMV in Spain.

The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

Geographical breakdown (%)

	Fund
UK	23,0
US	17,1
Germany	13,5
Netherlands	9,4
France	8,8
Luxembourg	4,1
Jersey	3,9
Italy	3,6
Other	14,5
Cash	2,2

Credit rating breakdown (%)

	Physical	CDS short	CDS long	Net
AAA	14,0	0,0	1,7	12,0
AA	4,4	0,0	0,7	5,1
A	26,4	-0,6	1,2	27,0
BBB	39,5	-0,3	3,5	42,7
BB	7,6	0,0	0,0	7,6
B	0,7	0,0	0,6	1,3
CCC	0,1	0,0	0,0	0,1
CC	0,0	0,0	0,0	0,0
C	0,0	0,0	0,0	0,0
D	0,0	0,0	0,0	0,0
No rating	5,3	-0,9	0,0	4,4
Cash	2,2	0,0	0,0	0,0

CDS short: bought protection (short credit exposure); CDS long: sold protection (long credit exposure)

The columns may not always add up when reading across as physical bond holdings and/or cash are sometimes used as collateral for CDS exposure.

Maturity breakdown (%)

	Fund
Cash	2,2
0 - 1 years	5,5
1 - 3 years	10,5
3 - 5 years	24,9
5 - 7 years	16,4
7 - 10 years	24,2
10 - 15 years	8,3
15+ years	8,1

Interest rate futures

	Fund
Long	0,0%
Short	-16,2%
Duration impact	-1,0 years

Top issuers (excluding government bonds, %)

	Fund
BAA	1,9
Imperial Tobacco	1,7
JP Morgan	1,7
Johnson & Johnson	1,5
Altria	1,5
Lloyds Banking	1,4
Citigroup	1,4
Virgin Media Finance	1,3
Hannover	1,3
BAT	1,3