

M&G Investment Funds (1)



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^[a] Collectively, these comprise the Authorised Corporate Director's Report.

Introduction

COMPANY INFORMATION

Company

M&G Investment Funds (1)

Registered Office

Laurence Pountney Hill, London EC4R 0HH

Authorised Corporate Director (ACD)

M&G Securities Limited,

Laurence Pountney Hill, London EC4R 0HH

Telephone: 0800 390 390

(Authorised and regulated by the Financial Services Authority)

Directors of the ACD

W J Nott (Chief Executive),

J R Talbot (Director and Secretary),

D J Carter, C I Jackson, M Lewis, G W MacDowall,

L U Midwinter, L J Mumford, E L Rosengarten, L J Scrine

Investment Manager for all sub-funds except as noted below:

M&G Investment Management Limited,

Laurence Pountney Hill, London EC4R 0HH

Telephone: 020 7626 4588

(Authorised and regulated by the Financial Services Authority)

Investment Manager for M&G Japan Fund & M&G Japan Smaller Companies Fund:

Prudential Asset Management (Singapore) Limited (PAMS),

30 Cecil Street, #20-01 Prudential Tower, Singapore 049712

At the start of the review period investment advisory services had been delegated by PAMS to Prudential Asset Management (Hong Kong) Limited.

Investment Manager for M&G North American Value Fund:

PPM America Inc.,

225 West Wacker Drive, Suite 1200, Chicago, IL, USA 60606

Fund managers

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

M&G American Fund

Aled Smith

M&G Asian Fund

Michael Godfrey & Matthew Vaight

At the start of the review period Aled Smith was the fund manager.

M&G British Opportunities Fund

Tom Dobell

The M&G British Opportunities Fund merged into the M&G Recovery Fund immediately after 10 November 2006 and is therefore not available for investment.

M&G European Fund

Michael Stiasny

At the start of the review period Giles Worthington and Michael Stiasny were the co-fund managers.

M&G European Index Tracker Fund

Nigel Booth

M&G European Smaller Companies Fund

Charles Anniss

M&G Global Basics Fund

Graham French

M&G Global Growth Fund

Greg Aldridge

M&G Global Leaders Fund

Aled Smith

M&G Global Technology Fund

Cyrille Filott

M&G Pan European Fund

Giles Worthington

M&G Strategic Corporate Bond Fund

Richard Woolnough

The following fund managers are employed by Prudential Asset Management (Singapore) Limited which is an associate of M&G Securities Limited.

At the start of the review period the following fund managers were employed by Prudential Asset Management (Hong Kong) Limited which is an associate of M&G Securities Limited.

M&G Japan Fund

Dean Cashman

M&G Japan Smaller Companies Fund

Dean Cashman & Max Godwin

The following fund manager is employed by PPM America Inc., which is an associate of M&G Securities Limited.

M&G North American Value Fund

Richard Brody

Registrar

International Financial Data Services (UK) Limited,

IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS

(Authorised and regulated by the Financial Services Authority)

Depository

The Royal Bank of Scotland plc, Trustee & Depository Services,

The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9UZ

(Authorised and regulated by the Financial Services Authority)

Independent auditors

PricewaterhouseCoopers LLP,

Hay's Galleria, 1 Hay's Lane, London SE1 2RD

Customer Services and Administration

M&G Securities Limited,

PO Box 9039, Chelmsford CM99 2XG

Telephone: 0800 390 390

(For your security and to improve the quality of our service, we may record and monitor telephone calls)

Notes to shareholders

Stockmarkets worldwide have moved significantly since the end of the period under review, which may have considerably affected the value of your investment.

M&G Global Growth Fund - The sub-fund changed its name from M&G International Growth Fund and its investment objective & policy from 19 September 2008.

M&G is a member of the Investment Management Association (IMA) and of the Tax Incentivised Savings Association.

The Instrument of Incorporation can be inspected at our offices or at the office of the Depository.

Introduction

FOR EUROPEAN INVESTORS

Copies of the Prospectus and the Interim / Annual Investment Report and Financial Statements can be obtained from:

M&G International Investments Ltd (Niederlassung Deutschland):

Joachimstaler Straße 10-12, D-10719 Berlin

German Paying and Information Agent:

J. P. Morgan AG, Junghofstraße 14, D-60311 Frankfurt am Main

Austrian Paying and Information Agent:

Raiffeisen Zentralbank Österreich AG,
Am Stadtpark 9, A-1030 Wien

Luxembourg Paying and Information Agent:

J. P. Morgan Bank Luxembourg S.A.
5 Rue Plaetis, L-2338 Luxembourg

For Italy:

M&G International Investments Ltd, Laurence Pountney Hill, London
EC4R 0HH

Italian Paying and Information Agent:

Cassa Centrale Raiffeisen dell'Alto Adige S.p.A.
via Laurin 1, 39100 Bolzano

Spanish Representative:

Allfunds Bank, Calle Nuria, 57, Mirasierra, 28034 Madrid, Spain

Swiss Paying Agent:

JP Morgan Chase Bank, New York (Zürich branch)

Swiss Representative:

First Independent Fund Services Klausstrasse 33, CH-8008 Zürich

For France:

M&G International Investments Limited,
90 avenue des Champs Elysées, 75008 Paris

French Centralising Agent:

RBC Dexia Investor Services, Bank France SA
105 rue Réaumur, F-75002 Paris

AUTHORISED CORPORATE DIRECTOR'S REPORT

The Authorised Corporate Director (ACD) presents its annual investment report and audited financial statements for the year ended 31 August 2008.

The sub-funds in this report are all part of an umbrella Open-Ended Investment Company (OEIC), M&G Investment Funds (1). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000. M&G Investment Funds (1), as an umbrella OEIC, contains 15 sub-funds^[a], each of which are UCITS (Undertakings for Collective Investment in Transferable Securities) schemes as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA:

M&G American Fund
M&G Asian Fund
M&G British Opportunities Fund^[a]
M&G European Fund
M&G European Index Tracker Fund
M&G European Smaller Companies Fund
M&G Global Basics Fund
M&G Global Growth Fund
M&G Global Leaders Fund
M&G Global Technology Fund
M&G Japan Fund
M&G Japan Smaller Companies Fund
M&G North American Value Fund
M&G Pan European Fund
M&G Strategic Corporate Bond Fund

^[a] The M&G British Opportunities Fund merged into the M&G Recovery Fund immediately after 10 November 2006 and is therefore not available for investment.

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

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

The annual investment report and financial statements for each sub-fund for the year ended 31 August 2008 are set out in detail in their section of this report (see contents page).

J R Talbot
Director of M&G Securities Limited

G W MacDowall
Director of M&G Securities Limited

16 October 2008

M&G Investment Funds (1)

AUTHORISED CORPORATE DIRECTOR'S RESPONSIBILITIES

Statement of the Authorised Corporate Director's responsibilities in respect of the annual investment report and financial statements of the Company

The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority (FSA), requires the Authorised Corporate Director (ACD) to prepare the investment report and financial statements for each financial year which give a true and fair view of the financial position of the Company as at the end of the financial year, and the net income and the net gains for the year. In preparing the financial statements, the ACD is required to:

- comply with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005, the Instrument of Incorporation, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

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

DEPOSITARY'S RESPONSIBILITIES AND REPORT

Statement of the Depositary's responsibilities in respect of the financial statements of the Company

The Depositary is under a duty to take into custody and to hold the property of the Company. Under the Regulations relating to Reports, it is the duty of the Depositary to enquire into the conduct of the Authorised Corporate Director in the management of the Company in each accounting period and report thereon to shareholders in a report which shall contain the matters prescribed by the Regulations. A copy of the Depositary's report is included in this report.

Report of the Depositary to the shareholders of M&G Investment Funds (1) for the year ended 31 August 2008

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Schemes sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended ('the OEIC Regulations'), the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers applicable to the Company.

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

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with COLL and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

Edinburgh
16 October 2008

The Royal Bank of Scotland plc
Trustee and Depositary Services

M&G Investment Funds (1)

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of M&G Investment Funds (1) ICVC ('the Company')

We have audited the financial statements of M&G Investment Funds (1) ICVC for the year ended 31 August 2008 which comprise the aggregated statement of total return, the aggregated statement of change in shareholders' net assets, the aggregated balance sheet and related notes and for each of the Company's sub-funds, the statement of total return, the statement of change in shareholders' net assets, the balance sheet, the portfolio statement, the summary of material portfolio changes, the related notes and the distribution table. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Authorised Corporate Director and Auditors

The Authorised Corporate Director's responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Authorised Corporate Director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the requirements of the Collective Investment Schemes sourcebook. This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in December 2005, the Collective Investment Schemes sourcebook and the Instrument of Incorporation. We also report to you whether, in our opinion, proper accounting records for the Company have not been kept or whether the financial statements are not in agreement with those records, and whether the information given in the Authorised Corporate Director's Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Authorised Corporate Director's Report and the other items set out on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authorised Corporate Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the Company and each of the sub-funds at 31 August 2008 and of the net income / (expenses) and the net gains / (losses) of the property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in December 2005, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

We have obtained all the information and explanations we consider necessary for the purposes of the audit.

In our opinion the information given in the Authorised Corporate Director's Report is consistent with the financial statements.

London
16 October 2008

PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors

The financial statements are published at www.mandg.co.uk/reports, which is a website maintained by M&G Securities Limited and M&G Financial Services Limited (M&G). The maintenance and integrity of the website maintained by M&G, so far as it relates to M&G Investment Funds (1), is the responsibility of M&G. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

The Annual report contained in this document has been extracted and translated from the Accounts of the Company which were produced in English and on which PricewaterhouseCoopersLLP expressed the opinion reproduced/translated above.

PricewaterhouseCoopersLLP express no opinion as to whether the contents have been properly extracted from the accounts on which they expressed their opinion or the accuracy of the translations made.

Aggregated Financial Statements

For the year ended 31 August 2008.

STATEMENT OF TOTAL RETURN					
	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net gains on investments	3		114.629		770.653
Currency gains / (losses)			9.816		(1.217)
Income	4	161.177		130.747	
Expenses	5	(116.821)		(99.640)	
Finance costs: Interest	13	(27)		(47)	
Net income before taxation		44.329		31.060	
Taxation	6	(25.399)		(16.108)	
Net income after taxation			18.930		14.952
Total return before distributions			143.375		784.388
Finance costs: Distributions	13		(42.381)		(35.442)
Change in net assets attributable to shareholders from investment activities			100.994		748.946

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS				
	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		6.664.169		5.208.404
Amounts received on issue of shares	3.038.794		2.552.586	
Amounts paid on cancellation of shares	(2.223.946)		(1.453.285)	
Transfer of assets from the M&G British Opportunities Fund to the M&G Recovery Fund	0		(414.669)	
		814.848		684.632
Stamp Duty Reserve Tax (SDRT)		(1.077)		(717)
Change in net assets attributable to shareholders from investment activities (see above)		100.994		748.946
Retained distributions on Accumulation shares		27.375		22.890
Unclaimed distributions		12		14
Closing net assets attributable to shareholders		7.606.321		6.664.169

BALANCE SHEET				
	as at 31 August 2008 £'000		as at 31 August 2007 £'000	
Assets				
Portfolio of investments	7.439.059		6.526.154	
Debtors				
Amounts receivable on issues	47.509		29.461	
Bank interest receivable	261		224	
Currency deals outstanding	27.296		5.630	
Debt security interest receivable	3.815		2.061	
Deposit interest receivable	26		0	
Dividends receivable	11.440		4.547	
HM Revenue & Customs interest receivable	0		68	
Overseas tax recoverable	2.702		2.186	
Prepaid expenses	13		13	
Sales awaiting settlement	17.950		12.889	
Stock lending fee receivable	0		3	
Tax recoverable	38		9	
VAT recoverable	5		941	
Cash and bank balances	179.305		148.829	
Total other assets	290.360		206.861	
Total assets	7.729.419		6.733.015	
Liabilities				
Derivative liabilities	(568)		0	
Creditors				
Amounts payable on cancellations	(37.423)		(19.900)	
Amounts payable to the M&G Recovery Fund	0		(330)	
Bank overdraft interest payable	0		(1)	
Corporation tax payable	(87)		(106)	
Currency deals outstanding	(27.309)		(5.630)	
Deferred US State & Federal taxes	(4.862)		0	
Deferred taxation	(287)		(85)	
Expenses payable	(2.068)		(1.514)	
Income tax payable	(479)		(298)	
Net distributions payable on Income shares	(12.550)		(10.538)	
Overseas tax payable	(442)		(3.621)	
Purchases awaiting settlement	(36.886)		(26.732)	
SDRT payable	(136)		(91)	
VAT payable	(1)		0	
Total other liabilities	(122.530)		(68.846)	
Total liabilities	(123.098)		(68.846)	
Net assets attributable to shareholders	7.606.321		6.664.169	

Aggregated Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The accounting policies applied are set out in the notes to the financial statements of each of the sub-funds.

The aggregated financial statements represent the summation of the financial statements for each of the sub-funds.

2 Risk management policies

The risk management policies are set out in the notes to the financial statements of each of the sub-funds.

3 Net gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	98.594	762.097
Forward currency contracts	(739)	0
Special dividends taken to capital	16.774	8.556
Net gains on investments	114.629	770.653

4 Income

	2008 £'000	2007 £'000
Bank interest	3.106	3.163
Deposit interest	3.408	5.677
HM Revenue & Customs interest	123	16
HM Revenue & Customs interest prior year adjustment	0	(3)
Interest on debt securities	5.658	5.136
Overseas dividends	136.275	107.439
Stock dividends	2.320	1.759
Stock lending fee income	0	30
UK dividends	10.104	7.521
Underwriting commission	183	9
	161.177	130.747

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	104.754	88.716
Administration fee	10.581	8.891
	115.335	97.607
Payable to the Depositary or associate		
Depositary's fee (including VAT)	370	338
Distribution fees	11	0
	381	338
Other expenses		
Audit fee (including VAT)	130	139
Dividend charges	33	30
Legal fees	0	4
Overseas tax agents fees ^[a]	70	41
Regulatory fees	45	27
Safe custody charge	1.009	834
Tax consultancy fees ^[a]	138	121
Transaction charges	179	166
Transaction charges relating to stock lending	0	5
	1.604	1.367
VAT recoverable		
Current year	(44)	(20)
Prior year	(455)	348
	(499)	328
Total expenses	116.821	99.640

^[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

Aggregated Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	4.817	4.832
Overseas tax	20.198	16.488
Overseas tax recoverable: exchange rate movements	(361)	(1)
Overseas tax recoverable: written off	20	0
Overseas tax recovered: previously written off	(26)	(469)
Double taxation relief	(4.730)	(4.725)
Capital gains tax (India)	0	1
US State & Federal taxes	421	0
Prior period adjustment	(4)	(22)
Current tax charge (note 6b)	20.335	16.104
Deferred US State & Federal taxes (note 6c)	4.862	0
Deferred tax (note 6c)	202	4
	25.399	16.108

b) Factors affecting taxation charge for the year

Net income before taxation	44.329	31.060
Corporation tax at 20%	8.866	6.212
Effects of:		
Tax on special dividends taken to capital	496	1.053
UK dividends ^[a]	(2.021)	(1.504)
Stock dividends not taxable	(388)	(341)
Unfranked income not taxable	0	(34)
Interest distributions	(908)	(843)
Prior period expenses utilised	(147)	0
Current period expenses not utilised	40	583
Expenses not deductible for tax purposes	35	33
Income taxable in different periods	(1.156)	(327)
Overseas tax	20.198	16.488
Overseas tax recoverable: exchange rate movements	(361)	(1)
Overseas tax recoverable: written off	20	0
Overseas tax recovered: previously written off	(26)	(469)
Double taxation relief	(4.730)	(4.725)
Capital gains tax (India)	0	1
US State & Federal taxes	421	0
Prior period adjustment	(4)	(22)
Current tax charge (note 6a)	20.335	16.104

[a] As an Open-Ended Investment Company this item is not subject to corporation tax.

c) Provision for deferred taxation

Provision at the start of the year	85	81
Deferred US State & Federal taxes (note 6a)	4.862	0
Deferred tax in profit and loss account (note 6a)	202	4
Provision at the end of the year	5.149	85

Within the UK/US tax treaty there is a limitation of benefits clause which means that where the Open-Ended Investment Company (OEIC), being the legal entity rather than on a sub-fund by sub-fund basis, is not owned by more than 50% in value by UK/US residents for more than the majority of the financial year then all dividends paid by US companies will not benefit from the tax treaty rate of 15%. This situation has occurred during the accounting period and, therefore, we are providing for overseas tax on all US income at the standard withholding tax rate of 30%. We are in discussion with the US tax authorities to find a way in which the OEIC can benefit from the tax treaty in the future.

7 Stock lending activities

The gross income earned from stock lending activities in the year to 31 August 2007 was £75.000. The income shown in note 4 is net of commissions amounting to £45.000 which was paid to M&G Investment Management Limited. Transaction charges relating to stock lending are shown in note 5.

The value of stock on loan at 31 August 2007 was £2.330.000. The total value of collateral held at 31 August 2007 was £2.591.000. This collateral consisted of equities to the value of £1.932.000, bonds to the value of £424.000 and cash to the value of £235.000.

8 Contingent liabilities and outstanding commitments

Rights issues

At the balance sheet date, the Company had a contingent liability totalling £730.679 (31.08.07: £15.159), details of which are disclosed in the notes to the financial statements of the relevant sub-funds.

Warrants

There were no outstanding commitments at the balance sheet date.

At 31 August 2007 the Company had a commitment to warrants outstanding totalling £274.921, details of which are disclosed in the notes to the financial statements of the relevant sub-funds.

9 Related parties

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

10 Financial instruments

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

11 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	3.367.054	3.353.696
Commissions	5.751	6.009
Taxes	2.124	1.320
Total transaction costs	7.875	7.329
Total purchases including transaction costs	3.374.929	3.361.025
b) Sales		
Sales excluding transaction costs	2.564.873	2.207.325
Commissions	(4.082)	(4.194)
Taxes	(316)	(333)
Other - SEC fee	(6)	(3)
Total transaction costs	(4.404)	(4.530)
Total sales net of transaction costs	2.560.469	2.202.795

12 Shareholder funds

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

Aggregated Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

13 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Dividend distributions	13.187	11.594
Interest distributions	1.491	1.823
Class 'X' - Dividend distributions	464	404
Interest distributions	808	710
Accumulation shares (sterling)		
Class 'A' - Dividend distributions	8.474	5.887
Interest distributions	589	270
Class 'X' - Dividend distributions	689	425
Interest distributions	1.084	520
Accumulation shares (euro)		
Class 'A' - Dividend distributions	8.898	10.733
Class 'C' - Dividend distributions	7.585	5.040
Accumulation shares (US dollar)		
Class 'A' - Dividend distributions	41	15
Class 'C' - Dividend distributions	15	0 ^[a]
	43.325	37.421
Income tax deducted at source	908	843
	44.233	38.264
Income deducted on cancellation of shares	6.622	3.620
Income received on issue of shares	(8.474)	(6.442)
Finance costs: Distributions	42.381	35.442
Finance costs: Interest	27	47
Total finance costs	42.408	35.489
Net income per statement of total return	18.930	14.952
Expenses offset against capital	19.820	19.974
Tax relief on expenses offset against capital	(1.631)	(1.855)
Stock dividends not distributed	(1.786)	(1.540)
Tax relief on stock dividends not distributed	221	10
Tax on special dividends taken to capital	0	70
Capital gains tax offset against capital	0	1
Overseas tax offset against capital	124	1.290
US State & Federal taxes offset against capital	5.283	0
Prior year tax adjustment offset against capital	0	(21)
Undistributed income brought forward	56	74
Undistributed income carried forward	(73)	(56)
Income deficit transferred to capital	1.437	2.543
Finance costs: Distributions	42.381	35.442

^[a] The total of the dividend distributions for US dollar class 'C' (Accumulation) shares in 2007 was \$350.

DIRECTORS' STATEMENT

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Services Authority.

J R TALBOT
G W MACDOWALL } Directors

16 October 2008

M&G Global Leaders Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Global Leaders Fund

The Fund invests in a wide range of global equities that the fund manager considers to be leading in their field with the objective of maximising long term total return (the combination of income and growth of capital).

Investment approach

The M&G Global Leaders Fund is a distinctive global equity fund that invests in stocks carefully selected from the full spectrum of the global equities universe. The investment strategy of the fund is very clear: it is an active investment strategy focused on bottom-up, individual stock selection, aimed at identifying companies undergoing positive internal change leading to improvements in return on capital, such as a new emphasis on shareholder value creation or efficiency of capital allocation.

The fund manager follows a clearly defined active investment approach, focused exclusively on the selection of individual stocks and driven by fundamental company analysis. He tends to avoid imposing top-down views on sector, country or currency selections but will take into account macroeconomic factors where they impact on a particular stock. There is no reference to a benchmark in the stock selection process.

Candidate companies for the fund are identified by the fund manager in conjunction with the M&G Global Equities team using a comprehensive research process and the full range of equity fund management expertise at M&G. Proprietary analysis by the M&G Global Equities team is carried out which consists of systematic bespoke screening of the global equity universe using the Credit Suisse HOLT database to search for companies delivering improving returns and strategies that are undervalued by the market followed by comprehensive company specific fundamental analysis.

From the stocks that successfully pass through the team's rigorous investment process, the fund manager then uses the best of these ideas to construct the portfolio, guided by a risk management process designed to ensure proper diversification and that the appropriate risks are being taken by the fund.

The key test in the fund's stock selection process is the depth of the fund manager's personal conviction over each company's prospects of long-term success. He bases his judgement on a comprehensive assessment of two key factors: the company's valuation and the ability of its management to deliver the appropriate corporate strategy.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 September 2008, for the year ended 31 August 2008

We initiated a holding in US specialty chemicals company DuPont, which has a long history of successfully developing innovative products, including nylon, Teflon and Kevlar. DuPont is a market leader in seed technology solutions, which is an area experiencing significant structural growth. In addition, new management are working to make the company's research and development efforts more efficient while maintaining DuPont's core competency of innovation – a strategy we believe should have a positive impact on company returns.

Another new holding was Dutch electronics manufacturer Philips Electronics. In recent years, the company has increasingly focused on creating shareholder wealth by improving capital allocation within its businesses. For example, Philips has disposed of its semi-conductor business and outsourced its television manufacturing to outside companies, choosing to license its brand instead. We believe that going forward Philips is more likely to sell those business units that are low-returning, something that would be to the benefit of overall company returns.

Other new positions include British Airways (BA) and BASF. We believe that BA will continue to benefit from the open skies agreement that has enabled the carrier to shift its landing slots at Heathrow airport to more profitable routes. Also, the airline's agreement with Spain's Iberia and American Airlines to jointly manage routes between Europe and the US would allow BA to increase its asset efficiency considerably. The world's leading chemical maker – Germany's BASF – has undergone significant restructuring in recent years. It has sold less profitable business units and invested in segments where returns depend less on economic cycles such as oil & gas and crop protection.

We closed the fund's position in US-based Archer Daniels Midland, which processes and transports agricultural commodities, as we believe the company had become fully valued after a strong performance. Similarly, the fund's holdings in Korean oil producer SK Energy and US railroad company Union Pacific were sold as their share prices have risen substantially and we no longer believe that they offer value.

In order to reduce the portfolio's credit risk, we sold the fund's holdings in Bank of America, Deutsche Bank and Aareal Bank due to their exposure to mortgage lending.

The Dutch paint manufacturer Akzo Nobel also left the portfolio due to our concerns about the company's capital discipline. Last year, Akzo Nobel acquired the British paint maker ICI, which recently has been hit by slowing house sales in the US and Western Europe. Furthermore we believed that chemicals companies BASF and DuPont represented better investment opportunities in that sector.

Aled Smith

Fund manager

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

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

M&G Global Leaders Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.03.09	30.04.09
Final	01.09.09	31.10.09

	Final distribution		Total Expense Ratio ^[b]	
	Inc 31.10.08 ^[a]	Acc 01.09.08 ^[a]	31.08.08	31.08.07
Sterling	p	p	%	%
Class 'A'	1,8570	3,8331	1,68	1,67
Class 'X'	1,8360	3,7814	1,68	1,65
Euro	¢	¢	%	%
Class 'A'	n/a	13,9010	1,94	1,91
Class 'C'	n/a	14,7380	0,93	0,91
US dollar	¢	¢	%	%
Class 'A'	n/a	10,7180	1,91	1,51
Class 'C'	n/a	10,9640	0,85	0,94

The Portfolio Turnover Rate (PTR) for the 12 months ending 31 August 2008 was 11,65% compared with 7,05% for the year ending 31 August 2007. ^[c]

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

^[c] The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.08.08		Net asset value per share as at 31.08.07		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	160,61	335,35	171,62	351,89	-6,42	-4,70
Class 'X'	158,86	330,96	169,75	347,27	-6,42	-4,70
Euro	€	€	€	€	%	%
Class 'A'	n/a	12,1611	n/a	15,2176	n/a	-20,09
Class 'C'	n/a	12,9308	n/a	16,0189	n/a	-19,28
US dollar	\$	\$	\$	\$	%	%
Class 'A'	n/a	9,3606	n/a	10,8714	n/a	-13,90
Class 'C'	n/a	9,4927	n/a	10,9138	n/a	-13,02

PERFORMANCE SINCE LAUNCH

	six months 03.03.08 %	one year 03.09.07 %	five years 01.09.03 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+0,1	-7,4	+11,6	+5,4 ^[c]
Class 'X'	+0,1	-7,4	+11,4	+14,7 ^[d]
Euro ^[e]				
Class 'A'	-4,6	-21,6	+9,7	+2,9 ^[f]
Class 'C'	-4,1	-20,8	+10,7	+3,8 ^[f]
US dollar ^[e]				
Class 'A'	-8,0	-15,9	n/a	-5,0 ^[g]
Class 'C'	-7,5	-15,0	n/a	-4,1 ^[g]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

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

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

^[e] Bid to bid with net income reinvested.

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING AUGUST)

From To	31.08.07 29.08.08 %	31.08.06 31.08.07 %	31.08.05 31.08.06 %	31.08.04 31.08.05 %	29.08.03 31.08.04 %
Sterling					
Class 'A' ^[a]	-4,7	+14,9	+18,5	+39,5	+4,8

Source: Morningstar Inc., bid to bid with net income reinvested.

^[a] Nominated share class.

M&G Global Leaders Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling					
Class 'A'		p	p	p	p
	2003	95,48	65,39	183,79	124,42
	2004	108,24	90,66	211,98	175,73
	2005	146,15	106,64	290,44	210,13
	2006	170,07	143,10	339,85	285,96
	2007	186,07	161,99	377,46	326,80
	2008 ^[a]	177,49	147,44	363,92	304,32
Class 'X'					
	2003	95,09	65,81	182,59	124,32
	2004	107,35	90,03	209,70	174,07
	2005	144,49	105,58	286,50	207,58
	2006	168,15	141,49	335,25	282,11
	2007	184,01	160,20	372,46	322,47
	2008 ^[a]	175,57	145,82	359,17	300,34
Euro					
Class 'A'		€	€	€	€
	2003	n/a	n/a	7,9288	5,4379
	2004	n/a	n/a	8,8473	7,7522
	2005	n/a	n/a	12,4048	8,8742
	2006	n/a	n/a	14,4685	12,2946
	2007	n/a	n/a	16,3397	13,6819
	2008 ^[a]	n/a	n/a	14,3827	11,1753
Class 'C'					
	2003	n/a	n/a	8,0511	5,5062
	2004	n/a	n/a	9,0858	7,8828
	2005	n/a	n/a	12,8558	9,1149
	2006	n/a	n/a	15,1300	12,7887
	2007	n/a	n/a	17,1744	14,4348
	2008 ^[a]	n/a	n/a	15,1914	11,8685
US dollar					
Class 'A'		\$	\$	\$	\$
	2007 ^[b]	n/a	n/a	11,7734	9,8104
	2008 ^[a]	n/a	n/a	11,0416	9,0796
Class 'C'					
	2007 ^[b]	n/a	n/a	11,8059	9,8117
	2008 ^[a]	n/a	n/a	11,1178	9,2056

^[a] To 1 September 2008.

^[b] From 9 March 2007 (the launch date of the share class) to 31 December 2007.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Income per share					
	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)					
Class 'A'		p	p	p	p
	2003	0,5180	1,0750	1,5930	3,0241
	2004	0,6700	0,9930	1,6630	3,2144
	2005	0,6990	1,1120	1,8110	3,5601
	2006	0,8630	1,4500	2,3130	4,6126
	2007	0,9080	1,8660	2,7740	5,6172
	2008 ^[a]	1,0780	1,8570	2,9350	6,0434
Class 'X'					
	2003	n/a	1,5190	1,5190	2,8697
	2004	0,6560	0,9900	1,6460	3,1736
	2005	0,7230	1,1040	1,8270	3,5829
	2006	0,8500	1,4350	2,2850	4,5467
	2007	0,9010	1,8460	2,7470	5,5501
	2008 ^[a]	1,0710	1,8360	2,9070	5,9725
Euro (net)					
Class 'A'		€	€	€	€
	2003	n/a	n/a	n/a	32,6800
	2004	n/a	n/a	n/a	14,1220
	2005	n/a	n/a	n/a	15,2900
	2006	n/a	n/a	n/a	20,1150
	2007	n/a	n/a	n/a	24,3460
	2008 ^[a]	n/a	n/a	n/a	22,3660
Class 'C'					
	2003	n/a	n/a	n/a	nil
	2004	n/a	n/a	n/a	39,2600
	2005	n/a	n/a	n/a	15,7780
	2006	n/a	n/a	n/a	20,7940
	2007	n/a	n/a	n/a	25,5320
	2008 ^[a]	n/a	n/a	n/a	23,6590
US dollar (net)					
Class 'A'		\$	\$	\$	\$
	2007	n/a	n/a	n/a	10,4580
	2008 ^[a]	n/a	n/a	n/a	17,4820
Class 'C'					
	2007	n/a	n/a	n/a	10,6790
	2008 ^[a]	n/a	n/a	n/a	17,8090

^[a] Up to final: ex-distribution date 1 September 2008; payment date 31 October 2008.

M&G Global Leaders Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
		p	p		
Class 'A'	Aug 2006	151.08	304.80	124,171,966	15,366,547
	Aug 2007	171.62	351.89	158,345,866	19,741,047
	Aug 2008	160.61	335.35	149,821,066	36,933,347
Class 'X'	Aug 2006	149.38	300.70	4,127,542	546,737
	Aug 2007	169.75	347.27	6,999,342	4,004,487
	Aug 2008	158.86	330.96	7,454,742	6,615,487
Euro					
		€	€		
Class 'A'	Aug 2006	n/a	13,2657	n/a	42,475,991
	Aug 2007	n/a	15,2176	n/a	58,070,641
	Aug 2008	n/a	12,1611	n/a	35,334,241
Class 'C'	Aug 2006	n/a	13,8276	n/a	8,139,755
	Aug 2007	n/a	16,0189	n/a	16,733,855
	Aug 2008	n/a	12,9308	n/a	11,599,855
US dollar					
		\$	\$		
Class 'A'	Aug 2007	n/a	10,8714	n/a	117,100
	Aug 2008	n/a	9,3606	n/a	392,700
Class 'C'	Aug 2007	n/a	10,9138	n/a	2,000
	Aug 2008	n/a	9,4927	n/a	95,700
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Aug 2006	698,029,000		1,035,344,000	
	Aug 2007	1,147,278,000		1,694,900,000	
	Aug 2008	867,415,000		1,077,480,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

FINANCIAL STATEMENTS

For the year ended 31 August 2008.

STATEMENT OF TOTAL RETURN

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net (losses) / gains on investments	3		(50,310)		113,075
Currency gains / (losses)			12		(360)
Income	4	21,969		21,622	
Expenses	5	(16,271)		(16,405)	
Finance costs: Interest	12	(3)		0	
Net income before taxation		5,695		5,217	
Taxation	6	(2,884)		(2,605)	
Net income after taxation			2,811		2,612
Total return before distributions			(47,487)		115,327
Finance costs: Distributions	12		(16,542)		(15,967)
Change in net assets attributable to shareholders from investment activities			(64,029)		99,360

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS

	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,147,278		698,029
Amounts received on issue of shares	346,478		480,646	
Amounts paid on cancellation of shares	(573,469)		(143,673)	
		(226,991)		336,973
Stamp Duty Reserve Tax (SDRT)		(65)		(18)
Change in net assets attributable to shareholders from investment activities (see above)		(64,029)		99,360
Retained distributions on Accumulation shares		11,216		12,927
Unclaimed distributions		6		7
Closing net assets attributable to shareholders		867,415		1,147,278

M&G Global Leaders Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 31 August 2008 £'000		as at 31 August 2007 £'000	
Assets				
Portfolio of investments		840.534		1.139.932
Debtors				
Amounts receivable on issues	10.821		8.132	
Bank interest receivable	5		11	
Currency deals outstanding	1.513		0	
Deposit interest receivable	7		0	
Dividends receivable	950		575	
HM Revenue & Customs interest receivable	0		1	
Overseas tax recoverable	445		396	
Prepaid expenses	1		1	
Sales awaiting settlement	8.011		0	
VAT recoverable	1		11	
Cash and bank balances	27.076		6.603	
Total other assets		48.830		15.730
Total assets		889.364		1.155.662
Liabilities				
Creditors				
Amounts payable on cancellations	(12.649)		(4.583)	
Currency deals outstanding	(1.513)		0	
Expenses payable	(230)		(237)	
Net distributions payable on income shares	(2.919)		(3.084)	
Overseas tax payable	0		(478)	
Purchases awaiting settlement	(4.635)		0	
SDRT payable	(3)		(2)	
Total liabilities		(21.949)		(8.384)
Net assets attributable to shareholders		867.415		1.147.278

PORTFOLIO STATEMENT

as at 31 August 2008

Holding	Value £'000	31.08.08 %	31.08.07 %
Oil & gas producers		14,32	10,05
450.000 Anadarko Petroleum	15.267	1,76	
1.650.001 El Paso	15.310	1,77	
385.000 Forest Oil	12.092	1,39	
300.100 Hess	17.316	2,00	
600.000 Marathon Oil	14.920	1,72	
833.900 Mariner Energy	13.660	1,58	
1.400.000 Norsk Hydro	8.319	0,96	
925.000 StatoilHydro	15.730	1,81	
500.000 Sunoco	11.540	1,33	
Oil equipment, services & distribution		2,43	0,00
1.000.000 TransCanada	21.072	2,43	
Chemicals		9,18	8,09
400.000 BASF	12.658	1,46	
440.000 DSM	13.917	1,61	
775.000 DuPont	19.183	2,21	
275.000 FMC	11.226	1,29	
1.000.000 Rhodia	10.731	1,24	
3.500.000 Sumitomo Chemical	11.842	1,37	
Industrial metals		0,00	1,76
Mining		3,40	2,82
7.000.000 Iluka Resources	14.760	1,70	
3.000.000 Sherritt International	14.763	1,70	
Aerospace & defence		0,00	2,50
Construction & materials		0,00	3,06
Electronic & electrical equipment		7,23	3,84
700.000 MDA	10.831	1,25	
130.000 Nexans	9.046	1,04	
225.000 Siemens	13.508	1,56	
800.000 Tyco Electronics	14.391	1,66	
3.700.000 Yokogawa Electric	14.881	1,72	
General industrials		3,09	4,82
1.095.900 Alfa	3.123	0,36	
7.000.000 Shanghai Industrial Holdings	10.396	1,20	
480.000 ThyssenKrupp	13.261	1,53	
Industrial transportation		6,26	6,58
3.000 AP Moller-Maersk	18.426	2,12	
430.000 Norfolk Southern	17.311	2,00	
12.000.001 Pacific Basin Shipping	8.995	1,04	
750.000 Spirit Aerosystems	9.514	1,10	
Support services		1,83	0,00
1.299.999 IMS Health	15.879	1,83	
Automobiles & parts		4,20	5,17
1.500.000 Hankook Tire	12.064	1,39	
500.000 Toyota Motor	12.393	1,43	
1.400.000 Yamaha Motor	11.980	1,38	
Beverages		1,52	1,54
1.400.000 Coca-Cola Enterprises	13.205	1,52	
Food producers		0,00	1,52
Household goods		1,67	1,64
325.000 Whirlpool	14.481	1,67	
Leisure goods		6,30	3,09
2.900.000 Konica Minolta	22.147	2,55	
900.000 Philips Electronics	16.124	1,86	
769.000 Sony	16.393	1,89	
Pharmaceuticals & biotechnology		8,03	7,15
1.000.000 Astellas Pharma	24.937	2,87	
1.500.000 Daiichi Sankyo	24.886	2,87	
1.815.000 Schering-Plough	19.898	2,29	

M&G Global Leaders Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 31 August 2008

Holding		Value £'000	31.08.08 %	31.08.07 %
General retailers				
1.000.000	Home Depot	14.993	1,73	5,11
650.000	Metro	19.810	2,28	
Media				
			0,00	1,11
Travel & leisure				
5.000.000	British Airways	12.525	1,44	0,00
Mobile telecommunications				
1.250.000	SK Telecom spons. ADR	14.025	1,62	1,45
Electricity				
			0,00	3,24
Banks				
			5,80	10,19
500.000	Credit Suisse Group (Regd.)	12.793	1,47	
2.750.000	HSBC Holdings	23.726	2,74	
650.000	JPMorgan Chase	13.818	1,59	
General financial				
18.000.000	AMMB Holdings	8.876	1,02	4,17
780.000	Merrill Lynch	11.737	1,35	
Life insurance				
			4,43	4,14
1.150.000	Genworth Financial	10.048	1,16	
2.850.000	Prudential	15.547	1,79	
925.000	Unum Group	12.811	1,48	
Non-life insurance				
			0,00	0,84
Software & computer services				
			0,79	0,00
222.000	SAP	6.820	0,79	
Technology hardware & equipment				
			5,82	4,16
690.000	ASM International	9.482	1,09	
1.250.000	Marvell Technology Group	10.088	1,16	
90.000	Samsung Electronic Pref. (non-voting)	16.513	1,90	
2.000.000	STMicroelectronics	14.492	1,67	
AIM quoted				
			1,16	1,32
1.750.000	Sibir Energy	10.054	1,16	
Portfolio of investments (notes 1b & 1c on page 93)		840.534	96,90	99,36
Net other assets		26.881	3,10	0,64
Net assets attributable to shareholders		867.415	100,00	100,00

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Sunoco	22.140
HSBC Holdings	20.687
Rhodia	20.444
Yokogawa Electric	19.293
DuPont	19.175
Banca Monte dei Paschi di Siena	18.560
Philips Electronics	16.771
British Airways	15.725
IMS Health	15.611
ThyssenKrupp	15.031
Prudential	14.994
BASF	14.373
Merrill Lynch	11.806
MDA	10.960
AMMB Holdings	10.822
Spirit Aerosystems	9.914
Marvell Technology Group	9.552
Metro	8.869
Nexans	8.523
ASM International	8.028
Other purchases	100.309
Total purchases for the year	391.587
Largest sales	
£'000	
Archer Daniels Midland	24.540
SK Energy	23.817
Akzo Nobel	22.789
Bluescope Steel	21.507
Hess	20.362
Deutsche Bank	18.953
Amcor	18.081
Lyondell Chemical	17.269
Union Pacific	16.158
Dexia	16.118
Buzzi Unicem	15.984
European Aeronautic Defence and Space	15.925
ING Groep	15.707
Limited Brands	15.604
FMC	15.486
Holcim (Regd.)	15.385
Merrill Lynch	14.661
Aareal Bank	14.614
Bank of America	14.092
Pacific Basin Shipping	13.868
Other sales	289.755
Total sales for the year	640.675

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

- a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in December 2005.
- b) **Basis of valuation of investments:** All investments are valued at their fair value as at 12 noon on 29 August 2008, being the last business day of the financial year. The fair value of non-derivative securities is bid price.
- c) **Exchange rates:** Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 29 August 2008, being the last business day of the financial year.
- d) **Recognition of income:** Income from quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend. Overseas income received after the deduction of withholding tax is shown gross of taxation, with the taxation consequences shown within the taxation charge.

Bank interest, deposit interest and other income are recognised on an accruals basis.
- e) **Stock dividends:** The ordinary element of stocks received in lieu of cash dividends is recognised as income of the sub-fund. Any enhancement above the cash dividend is treated as capital.
- f) **Special dividends:** These are recognised as either income or capital depending upon the nature and circumstances of the dividend receivable.
- g) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.
- h) **Apportionment of income and expenses to multiple share classes:** With the exception of the Authorised Corporate Director's (ACD's) periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.
- i) **Taxation:** The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

j) **Deferred taxation:** Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period, from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

k) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. In determining the distribution of the sub-fund, all of the ACD's periodic charge is offset against capital. The effect of this is that the distribution is determined as if the ACD's periodic charge had been charged to capital.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Stock dividends form part of the distributable income.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is converted into sterling shortly after receipt and is not hedged in advance of receipt.

The ACD's periodic charge, net of any tax relief available, is offset against capital in determining the distribution of the sub-fund, thereby increasing the level of distributable income whilst restraining the sub-fund's capital performance to an equivalent extent. This policy increases investment opportunities in lower yielding companies and the ACD believes that this should facilitate maximising the total return of the sub-fund.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 152, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.08.07: same).

M&G Global Leaders Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

3 Net (losses) / gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	(50.310)	113.075

4 Income

	2008 £'000	2007 £'000
Bank interest	51	58
Deposit interest	795	1.825
HM Revenue & Customs interest	14	0
HM Revenue & Customs interest prior year adjustment	0	(1)
Overseas dividends	19.828	19.417
Stock dividends	446	134
UK dividends	804	189
Underwriting commission	31	0
	21.969	21.622

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	14.624	14.679
Administration fee	1.457	1.429
	16.081	16.108
Payable to the Depositary or associate		
Depositary's fee (including VAT)	52	51
Other expenses		
Audit fee (including VAT)	10	10
Dividend charges	18	22
Legal fees	0	1
Regulatory fees	4	2
Safe custody charge	136	160
Tax consultancy fees ^[a]	14	9
Transaction charges	14	9
	196	213
VAT recoverable		
Current year	(6)	(4)
Prior year	(52)	37
	(58)	33
Total expenses	16.271	16.405

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	884	988
Overseas tax	2.914	2.633
Overseas tax recoverable: exchange rate movements	(39)	(8)
Overseas tax recoverable: written off	9	0
Overseas tax recovered: previously written off	0	(20)
Double taxation relief	(884)	(988)
Current tax charge (note 6b)	2.884	2.605
Deferred tax (note 6c)	0	0
	2.884	2.605

b) Factors affecting taxation charge for the year

Net income before taxation	5.695	5.217
Corporation tax at 20%	1.139	1.044
Effects of:		
UK dividends ^[a]	(161)	(38)
Stock dividends not taxable	(89)	(27)
Expenses not deductible for tax purposes	3	2
Income taxable in different periods	(8)	7
Overseas tax	2.914	2.633
Overseas tax recoverable: exchange rate movements	(39)	(8)
Overseas tax recoverable: written off	9	0
Overseas tax recovered: previously written off	0	(20)
Double taxation relief	(884)	(988)
Current tax charge (note 6a)	2.884	2.605

[a] As a sub-fund of an Open-Ended Investment Company this item is not subject to corporation tax.

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £4.436.000 (31.08.07: £2.414.000) arising as a result of having eligible unrelieved foreign tax. We do not expect this asset to be utilised in the foreseeable future.

Within the UK/US tax treaty there is a limitation of benefits clause which means that where the Open-Ended Investment Company (OEIC), being the legal entity rather than on a sub-fund by sub-fund basis, is not owned by more than 50% in value by UK/US residents for more than the majority of the financial year then all dividends paid by US companies will not benefit from the tax treaty rate of 15%. This situation has occurred during the accounting period and, therefore, we are providing for overseas tax on all US income at the standard withholding tax rate of 30%. We are in discussion with the US tax authorities to find a way in which the OEIC can benefit from the tax treaty in the future.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.08.07: same).

M&G Global Leaders Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £14.994.000 (2007: £nil).

At the balance sheet date, the sub-fund held shares in related parties of M&G Securities Limited with a value of £15.547.000 (31.08.07: £nil).

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 26,85% (31.08.07: 33,22%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.08.07: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 31.08.08 £'000	as at 31.08.07 £'000	as at 31.08.08 £'000	as at 31.08.07 £'000	as at 31.08.08 £'000	as at 31.08.07 £'000
Australian dollar	14.760	53.521	2	1	14.762	53.522
Canadian dollar	46.666	35.281	(935)	0	45.731	35.281
Danish krone	18.426	19.426	0	0	18.426	19.426
Euro	139.849	237.011	(594)	6.925	139.255	243.936
Hong Kong dollar	19.391	44.877	2	0	19.393	44.877
Japanese yen	139.459	168.233	133	123	139.592	168.356
Malaysian ringgit	8.876	0	0	0	8.876	0
Mexican peso	3.123	15.023	3.047	0	6.170	15.023
Norwegian krone	24.049	18.313	0	0	24.049	18.313
South Korean won	28.577	57.107	0	0	28.577	57.107
Swiss franc	12.793	34.209	254	151	13.047	34.360
US dollar	322.713	441.768	3.683	498	326.396	442.266
	778.682	1.124.769	5.592	7.698	784.274	1.132.467
Sterling	61.852	15.163	21.289	(352)	83.141	14.811
Total	840.534	1.139.932	26.881	7.346	867.415	1.147.278

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (31.08.07: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.08.07: same).

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	390.659	533.085
Commissions	668	1.027
Taxes	260	39
Total transaction costs	928	1.066
Total purchases including transaction costs	391.587	534.151
b) Sales		
Sales excluding transaction costs	641.872	171.771
Commissions	(1.078)	(306)
Taxes	(119)	(52)
Total transaction costs	(1.197)	(358)
Total sales net of transaction costs	640.675	171.413

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Net Accumulation) shares and Euro Class 'C' (Net Accumulation) shares.

This sub-fund also contains US dollar Class 'A' (Net Accumulation) shares and US dollar Class 'C' (Net Accumulation) shares.

The charging structure for each share class, as at 31 August 2008, is set out in the following table (31.08.07: same):

CHARGES AND EXPENSES

	Initial charge %	Redemption charge %	ACD's annual remuneration %
Sterling			
Class 'A'	4,00	n/a	1,50
Class 'X'	nil	4,50 ^[a]	1,50
Euro & US dollar			
Class 'A'	5,25	n/a	1,75
Class 'C'	3,25	n/a	0,75

^[a] The redemption charge diminishes over a period of five years. Please refer to the Key Features document for further information.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

M&G Global Leaders Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

11 Shareholder funds (continued)

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	31.08.08		31.08.07	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	240.634	123.856	271.758	69.467
Class 'X'	11.842	21.895	11.881	13.907
Euro				
Class 'A'	n/a	345.928	n/a	598.175
Class 'C'	n/a	120.753	n/a	181.449
US dollar				
Class 'A'	n/a	2.010	n/a	630
Class 'C'	n/a	497	n/a	11

The net asset value per share and the number of shares are given in the comparative table on page 90. The distribution per share is given in the distribution table on page 97. Each share class has the same rights on winding-up.

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Interim	1.514	1.431
Final	2.782	2.955
Class 'X' - Interim	78	50
Final	137	129
Accumulation shares (sterling)		
Class 'A' - Interim	789	296
Final	1.416	747
Class 'X' - Interim	134	39
Final	250	150
Accumulation shares (euro)		
Class 'A' - Interim	2.407	2.812
Final	3.954	6.434
Class 'C' - Interim	850	494
Final	1.376	1.949
Accumulation shares (US dollar)		
Class 'A' - Interim	10	-
Final	23	6
Class 'C' - Interim	1	-
Final	6	0 ^[a]
Finance costs: Dividend distributions	15.727	17.492
Income deducted on cancellation of shares	2.436	761
Income received on issue of shares	(1.621)	(2.286)
Finance costs: Distributions	16.542	15.967
Finance costs: Interest	3	0
Total finance costs	16.545	15.967
Net income per statement of total return	2.811	2.612
Expenses offset against capital	14.638	14.688
Tax relief on expenses offset against capital	(904)	(1.331)
Undistributed income brought forward	13	11
Undistributed income carried forward	(16)	(13)
Finance costs: Distributions	16.542	15.967

^[a] The final distribution for US dollar Class 'C' (Accumulation) shares in 2007 was \$214.

M&G Global Leaders Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE					
Dividend distributions on Income shares	Tax credit	Net income	Equalisation	Distribution paid/payable	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0,1198	1,0780	-	1,0780	0,9080
Group 2:	0,0489	0,4399	0,6381	1,0780	0,9080
- Final					
Group 1:	0,2063	1,8570	-	1,8570	1,8660
Group 2:	0,0672	0,6048	1,2522	1,8570	1,8660
Class 'X' - Interim					
Group 1:	0,1190	1,0710	-	1,0710	0,9010
Group 2:	0,0726	0,6534	0,4176	1,0710	0,9010
- Final					
Group 1:	0,2040	1,8360	-	1,8360	1,8460
Group 2:	0,0987	0,8883	0,9477	1,8360	1,8460
Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Interim					
Group 1:	0,2456	2,2103	-	2,2103	1,8319
Group 2:	0,1002	0,9020	1,3083	2,2103	1,8319
- Final					
Group 1:	0,4259	3,8331	-	3,8331	3,7853
Group 2:	0,1387	1,2484	2,5847	3,8331	3,7853
Class 'X' - Interim					
Group 1:	0,2435	2,1911	-	2,1911	1,8137
Group 2:	0,1485	1,3368	0,8543	2,1911	1,8137
- Final					
Group 1:	0,4202	3,7814	-	3,7814	3,7364
Group 2:	0,2033	1,8295	1,9519	3,7814	3,7364
Euro	€	€	€	€	€
Class 'A' - Interim					
Group 1:	0,9406	8,4650	-	8,4650	7,9730
Group 2:	0,4919	4,4270	4,0380	8,4650	7,9730
- Final					
Group 1:	1,5446	13,9010	-	13,9010	16,3730
Group 2:	0,6544	5,8896	8,0114	13,9010	16,3730
Class 'C' - Interim					
Group 1:	0,9912	8,9210	-	8,9210	8,3220
Group 2:	0,4982	4,4839	4,4371	8,9210	8,3220
- Final					
Group 1:	1,6376	14,7380	-	14,7380	17,2100
Group 2:	0,5941	5,3470	9,3910	14,7380	17,2100

DISTRIBUTION TABLE (continued)

Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
US dollar	¢	¢	¢	¢	¢
Class 'A' - Interim					
Group 1:	0,7516	6,7640	-	6,7640	n/a
Group 2:	0,3625	3,2627	3,5013	6,7640	n/a
- Final					
Group 1:	1,1909	10,7180	-	10,7180	10,4580
Group 2:	0,5368	4,8313	5,8867	10,7180	10,4580
Class 'C' - Interim					
Group 1:	0,7606	6,8450	-	6,8450	n/a
Group 2:	0,1052	0,9472	5,8978	6,8450	n/a
- Final					
Group 1:	1,2182	10,9640	-	10,9640	10,6790
Group 2:	0,3531	3,1778	7,7862	10,9640	10,6790

Interim period 01.09.07 - 29.02.08

Final period 01.03.08 - 31.08.08

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

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Further Information

RISK FACTOR

Risk affecting all sub-funds

Within the M&G Investment Funds (1) range, although each sub-fund will be treated as being responsible for meeting its own liabilities, the Authorised Corporate Director (ACD) may reallocate these in a manner which is fair to all Company investors if any sub-fund is unable to meet its liabilities. A shareholder is not, however, liable for the debts of the Company and will never be liable to make any further payment to the Company after paying the purchase price of the shares.

LIQUIDITY

The ACD's policy is that the sub-funds should normally be close to fully invested but this is subject to the need to retain liquidity for the purpose of effecting the redemption of shares, and the efficient management of the sub-funds in accordance with their objectives. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of shares or the realisation of investments. Higher liquidity levels may also arise when a sub-fund's asset allocation policy is changed.

DILUTION

The actual cost of purchasing or selling a sub-fund's investments may deviate from the mid-market price due to dealing costs and these costs can have an adverse effect on the value of the sub-fund, known as 'dilution'. The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority, allows the cost of dilution to be recovered from investors on the purchase or redemption of shares by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD.

Further information on the ACD's dilution adjustment policy is in the Prospectus, which is available free of charge from the ACD, M&G Securities Limited.

THE EU SAVINGS DIRECTIVE

The percentage of the following M&G sub-funds held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is as follows:

M&G American Fund	3,77%
M&G Asian Fund	3,39%
M&G British Opportunities Fund	0,00%
M&G European Fund	3,63%
M&G European Index Tracker Fund	0,00%
M&G European Smaller Companies Fund	4,03%
M&G Global Basics Fund	1,08%
M&G Global Growth Fund	0,59%
M&G Global Leaders Fund	3,10%
M&G Global Technology Fund	1,78%
M&G Japan Fund	0,76%
M&G Japan Smaller Companies Fund	0,98%
M&G North American Value Fund	0,72%
M&G Pan European Fund	6,39%
M&G Strategic Corporate Bond Fund	83,03%

