

M&G Investment Funds (1)



Contents

Introduction	Page 1
Company Information ^[a]	Page 1
Authorised Corporate Director's Report ^[a]	Page 2
M&G Investment Funds (1)	Page 3
Authorised Corporate Director's Responsibilities	Page 3
Depositary's Responsibilities and Report	Page 3
Independent Auditors' Report	Page 4
Aggregated Financial Statements	Page 5
Directors' Statement	Page 8
Investment Report ^[a] and Financial Statements for:	
M&G American Fund	Page 9
M&G Asian Fund	Page 19
M&G British Opportunities Fund	Page 29
M&G European Fund	Page 37
M&G European Index Tracker Fund	Page 47
M&G European Smaller Companies Fund	Page 57
M&G Global Basics Fund	Page 67
M&G Global Growth Fund	Page 77
M&G Global Leaders Fund	Page 87
M&G Global Technology Fund	Page 99
M&G Japan Fund	Page 107
M&G Japan Smaller Companies Fund	Page 115
M&G North American Value Fund	Page 123
M&G Pan European Fund	Page 133
M&G Strategic Corporate Bond Fund	Page 143
Further Information ^[a]	Page 152
Risk Factor	Page 152
Liquidity	Page 152
Dilution	Page 152
The EU Savings Directive	Page 152

^[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 & Depositary 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 Depositary.

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		as at 31 August 2007	
	£'000	£'000	£'000	£'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 Basics Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

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

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

Investment approach

The M&G Global Basics Fund is a global equity fund that focuses on companies that are considered to be the 'building blocks' of the world's economy. Its investment universe comprises both 'primary' industries (where potential investments will be involved in the extraction of raw materials) and 'secondary' industries (where potential investments will be involved in the conversion of materials into products and services for the consumer).

The fund has a bias towards larger companies and those which we believe can grow independently of the economic environment. We seek to identify companies that exhibit the following qualities: strong competitive edge and sustainable market share (leadership in a niche market, natural barriers to entry, technological advantage); a proven business model; financial strength (strong balance sheet, good revenue growth); and low valuations. We are also particularly interested in traditional companies that are using technological change to boost productivity gains from their existing operations.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

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

During the period, we established a holding in Australian oil & gas exploration group Santos. The company has strategically valuable, high-quality coal seam gas assets, leaving it well placed to take advantage of insatiable energy requirements from Asia and growing demand for cleaner sources of power.

We increased an existing holding in French minerals and ceramics manufacturer Imerys. In our opinion, Imerys will play a key role in the rebuilding of eastern Europe's infrastructure thanks to its well-established presence in the region.

Further portfolio activity was focused on increasing the fund's holdings in consumer goods companies that we believe are poised to benefit from their exposure to faster-growing developing markets in Asia, Latin America and Africa. For example, we began a position in Anglo-Dutch consumer products giant Unilever. The company boasts strong franchises in South East Asia, in particular in Indonesia, where its products are selling well. Moreover, Unilever has a new management team, which is focused on achieving greater profits and streamlining its portfolio of brands.

We also added to an existing holding in US drinks manufacturer Constellation Brands. This firm has the world's largest wine portfolio, giving it exposure to the trend of growing wine consumption in the industrialised and developing markets. Excellent distribution capabilities, marketing expertise and the possibility of consolidation in the drinks industry also make Constellation Brands a worthwhile investment opportunity.

The fund's consumer-orientated holdings, such as Unilever and Constellation Brands offer the benefit of relatively defensive properties, in other words, these companies are less vulnerable to an economic slowdown and should therefore be able to grow their earnings even in a weaker economic climate. Exposure to such firms also provides a counterbalance to the fund's weighting in commodity stocks.

With regards to sales, we disposed of our long-held position in potash manufacturer K&S in the belief that the company's shares no longer represented an attractive investment following their stellar performance over the previous 12 months. While our investment process is focused on identifying themes being played out in the global economy, such as the growing demand for agricultural products, we nevertheless recognise the importance of stock selection and valuation.

We also closed a large position in Australian building materials and sugar conglomerate CSR because of our concerns about the management team's capital allocation strategy. We sold holdings in French oil major Total and US oil exploration group Hess, favouring opportunities among coal mining firms instead. As coal is cheaper than oil, we believe that coal production companies will be among the biggest beneficiaries of the world's surging energy requirements.

Graham French
Fund manager

Graham French 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 Basics Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
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'	0,8300	1,2325	1,65	1,65
Class 'X'	0,8680	1,2724	1,65	1,65
Euro	¢	¢	%	%
Class 'A'	n/a	nil	1,91	1,91
Class 'C'	n/a	17,1020	0,90	0,92
US dollar	¢	¢	%	%
Class 'A'	n/a	0,3920	1,86	1,54
Class 'C'	n/a	8,5010	0,83	0,93

The Portfolio Turnover Rate (PTR) for the 12 months ending 31 August 2008 was 4,18% compared with 31,81% 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'	570,42	848,29	515,10	764,92	+10,74	+10,90
Class 'X'	572,16	839,98	516,69	757,40	+10,74	+10,90
Euro	€	€	€	€	%	%
Class 'A'	n/a	21,9701	n/a	23,5948	n/a	-6,89
Class 'C'	n/a	23,2814	n/a	24,8159	n/a	-6,18
US dollar	\$	\$	\$	\$	%	%
Class 'A'	n/a	11,4588	n/a	11,4296	n/a	+0,26
Class 'C'	n/a	11,5789	n/a	11,4610	n/a	+1,03

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'	+1,1	+9,7	+20,8	+7,1 ^[c]
Class 'X'	+1,1	+9,7	+20,8	+23,1 ^[d]
Euro ^[e]				
Class 'A'	-4,7	-8,7	+17,5	+12,3 ^[f]
Class 'C'	-4,2	-7,8	+18,6	+13,3 ^[f]
US dollar ^[e]				
Class 'A'	-8,0	-2,1	n/a	+8,9 ^[g]
Class 'C'	-7,6	-1,1	n/a	+9,8 ^[g]

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

^[b] Bid to bid excluding reinvested income.

^[c] 28 February 1973, 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]	+10,9	+19,7	+20,2	+45,2	+16,2

^[a] Nominated share class.

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

M&G Global Basics Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling					
Class 'A'		p	p	p	p
	2003	238,90	162,81	344,63	231,23
	2004	296,31	233,76	432,52	337,22
	2005	409,75	290,67	603,56	424,29
	2006	484,72	407,45	713,99	600,18
	2007	569,37	454,95	845,50	673,75
	2008 ^[a]	650,46	485,31	965,92	720,68
Class 'X'					
	2003	239,49	162,74	343,48	231,14
	2004	297,13	234,00	429,48	335,60
	2005	410,96	291,51	597,54	421,35
	2006	486,15	408,66	706,87	594,21
	2007	571,12	456,37	837,19	667,09
	2008 ^[a]	652,48	486,79	956,45	713,57
Euro					
Class 'A'		€	€	€	€
	2003	n/a	n/a	10,6247	7,2178
	2004	n/a	n/a	13,0069	10,3888
	2005	n/a	n/a	18,5195	12,7089
	2006	n/a	n/a	21,9151	18,4113
	2007	n/a	n/a	25,6516	20,9437
	2008 ^[a]	n/a	n/a	25,2832	20,2432
Class 'C'					
	2003	n/a	n/a	10,7863	7,2880
	2004	n/a	n/a	13,3355	10,5687
	2005	n/a	n/a	19,1617	13,0452
	2006	n/a	n/a	22,7528	19,1312
	2007	n/a	n/a	26,9218	21,8804
	2008 ^[a]	n/a	n/a	26,7941	21,3772
US dollar					
Class 'A'		\$	\$	\$	\$
	2007 ^[b]	n/a	n/a	12,9150	9,8464
	2008 ^[a]	n/a	n/a	13,9650	10,4096
Class 'C'					
	2007 ^[b]	n/a	n/a	12,9692	9,8477
	2008 ^[a]	n/a	n/a	14,1053	10,4766

^[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	Distributed	Reinvested
Sterling (net)			p	p
Class 'A'				
	2003		3,5000	4,9709
	2004		3,0520	4,4028
	2005		3,3390	4,8739
	2006		2,3410	3,4483
	2007		1,4260	2,1118
	2008 ^[a]		0,8300	1,2325
Class 'X'				
	2003		2,1962	3,1192
	2004		2,0140	2,8885
	2005		2,1930	3,1698
	2006		2,3130	3,3632
	2007		1,4740	2,1546
	2008 ^[a]		0,8680	1,2724
Euro (net)			€	€
Class 'A'				
	2003		n/a	10,8600
	2004		n/a	6,2520
	2005		n/a	5,9020
	2006		n/a	6,0450
	2007		n/a	0,7100
	2008 ^[a]		n/a	nil
Class 'C'				
	2003		n/a	17,1620
	2004		n/a	16,8720
	2005		n/a	18,4290
	2006		n/a	23,5290
	2007		n/a	24,0510
	2008 ^[a]		n/a	17,1020
US dollar (net)			\$	\$
Class 'A'				
	2007		n/a	2,3250
	2008 ^[a]		n/a	0,3920
Class 'C'				
	2007		n/a	5,4150
	2008 ^[a]		n/a	8,5010

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

M&G Global Basics Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
		p	p		
Class 'A'	Aug 2006	431.86	639.55	52,057,767	29,094,773
	Aug 2007	515.10	764.92	59,953,267	47,539,873
	Aug 2008	570.42	848.29	85,365,067	79,363,203
Class 'X'	Aug 2006	433.19	633.21	6,458,486	5,078,756
	Aug 2007	516.69	757.40	10,099,786	9,133,756
	Aug 2008	572.16	839.98	15,237,386	16,306,176
Euro					
		€	€		
Class 'A'	Aug 2006	n/a	19,8586	n/a	90,433,819
	Aug 2007	n/a	23,5948	n/a	92,807,144
	Aug 2008	n/a	21,9701	n/a	98,061,544
Class 'C'	Aug 2006	n/a	20,6818	n/a	9,544,941
	Aug 2007	n/a	24,8159	n/a	8,217,781
	Aug 2008	n/a	23,2814	n/a	26,897,631
US dollar					
		\$	\$		
Class 'A'	Aug 2007	n/a	11,4296	n/a	786,500
	Aug 2008	n/a	11,4588	n/a	3,587,900
Class 'C'	Aug 2007	n/a	11,4610	n/a	2,000
	Aug 2008	n/a	11,5789	n/a	164,150
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Aug 2006	1,814,911,000		2,691,947,000	
	Aug 2007	2,418,480,000		3,572,876,000	
	Aug 2008	3,646,365,000		4,529,420,000	

[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 gains on investments	3		240,810		354,849
Currency gains			4,486		144
Income	4	63,064		46,781	
Expenses	5	(53,040)		(38,928)	
Finance costs: Interest	12	(9)		(3)	
Net income before taxation		10,015		7,850	
Taxation	6	(11,263)		(5,245)	
Net (expense) / income after taxation			(1,248)		2,605
Total return before distributions			244,048		357,598
Finance costs: Distributions	12		(3,425)		(3,234)
Change in net assets attributable to shareholders from investment activities			240,623		354,364

STATEMENT OF CHANGE IN SHAREHOLDERS' NET ASSETS				
	2008		2007	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		2,418,480		1,814,911
Amounts received on issue of shares	1,404,821		571,951	
Amounts paid on cancellation of shares	(421,555)		(325,134)	
		983,266		246,817
Stamp Duty Reserve Tax (SDRT)		(908)		(605)
Change in net assets attributable to shareholders from investment activities (see above)		240,623		354,364
Retained distributions on Accumulation shares		4,904		2,993
Closing net assets attributable to shareholders		3,646,365		2,418,480

M&G Global Basics Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 31 August 2008		as at 31 August 2007	
	£'000	£'000	£'000	£'000
Assets				
Portfolio of investments		3.606.841		2.354.366
Debtors				
Amounts receivable on issues	10.442		7.686	
Bank interest receivable	49		58	
Currency deals outstanding	12.737		2.169	
Deposit interest receivable	13		0	
Dividends receivable	4.527		942	
HM Revenue & Customs interest receivable	0		5	
Overseas tax recoverable	496		454	
Prepaid expenses	1		1	
Sales awaiting settlement	3.754		4.769	
VAT recoverable	0		79	
Cash and bank balances	60.743		72.563	
Total other assets		92.762		88.726
Total assets		3.699.603		2.443.092
Liabilities				
Creditors				
Amounts payable on cancellations	(4.542)		(656)	
Currency deals outstanding	(12.733)		(2.164)	
Deferred US State & Federal taxes	(4.862)		0	
Expenses payable	(885)		(449)	
VAT payable	(1)		0	
Net distributions payable on Income shares	(841)		(1.004)	
Overseas tax payable	(426)		(1.590)	
Purchases awaiting settlement	(28.832)		(18.693)	
SDRT payable	(116)		(56)	
Total liabilities		(53.238)		(24.612)
Net assets attributable to shareholders		3.646.365		2.418.480

PORTFOLIO STATEMENT

as at 31 August 2008

Holding	Value £'000	31.08.08 %	31.08.07 %
Austria		2,58	4,35
1.336.200 Agrana Beteiligung	56.772	1,56	
2.562.801 Wienerberger	37.156	1,02	
Eire		1,82	1,69
4.400.000 Kerry Group	66.235	1,82	
France		13,47	14,16
2.167.461 Arkema	57.195	1,57	
1.270.062 Compagnie des Alpes	30.682	0,84	
519.855 Eramet	155.563	4,27	
8.100.000 European Aeronautic Defence and Space	101.068	2,77	
475.000 Groupe Eurotunnel	3.640	0,10	
3.140.066 Imerys	111.044	3,04	
550.000 LVMH	32.263	0,88	
Germany		3,00	5,59
700.000 Linde	48.529	1,33	
5.400.000 Symrise	51.729	1,42	
1.404.425 Villeroy & Boch Pref. (non-voting)	8.954	0,25	
Netherlands		0,49	0,92
1.000.000 Philips Electronics	17.915	0,49	

PORTFOLIO STATEMENT (continued)

as at 31 August 2008

Holding	Value £'000	31.08.08 %	31.08.07 %
Norway		0,73	0,27
4.500.000 Norsk Hydro	26.741	0,73	
Spain		0,76	0,83
788.270 Baron de Ley	27.825	0,76	
United Kingdom		16,51	13,61
7.975.000 Compass Group	29.169	0,80	
679.610 Genus	5.369	0,15	
6.050.000 Johnson Matthey	96.921	2,66	
23.734.769 Kenmare Resources	8.248	0,23	
4.100.000 Lonmin	142.188	3,90	
13.287.401 PZ Cussons	23.286	0,64	
33.800.000 QinetiQ Group	75.712	2,08	
2.650.000 Sibir Energy ^[a]	15.224	0,42	
16.900.000 Tullow Oil	137.819	3,78	
4.250.000 Unilever	62.432	1,71	
6.701.431 ZincOx Resources ^[a]	5.026	0,14	
Australia		17,44	16,40
15.500.000 Amcor	40.215	1,10	
13.900.000 Ansell	80.848	2,22	
34.307.971 Australian Zircon	1.489	0,04	
21.200.000 Bluescope Steel	92.306	2,53	
7.000.000 Fosters Group	18.459	0,51	
66.000.000 Futuris	42.965	1,18	
28.300.000 Iluka Resources	59.674	1,64	
17.750.000 Santos	168.300	4,62	
8.015.000 Sims Group	130.063	3,57	
10.405.704 St Barbara	1.055	0,03	
China		0,00	0,15
Hong Kong		1,40	0,94
65.433.098 The Hongkong and Shanghai Hotels	51.245	1,40	
Malaysia		0,95	0,00
70.000.000 AMMB Holdings	34.519	0,95	
Singapore		2,42	1,89
8.411.000 Bio-Treat Technology	666	0,02	
32.000.000 Fraser & Neave	54.279	1,49	
44.581.600 Noble Group	33.418	0,91	
Canada		3,10	3,45
2.590.000 Harry Winston Diamond (formerly Aber Diamond)	28.329	0,78	
10.250.000 Sherritt International	50.440	1,38	
1.630.000 TransCanada	34.348	0,94	
United States		34,25	33,10
2.500.000 Acuity Brands	60.405	1,66	
2.650.000 Alliance Resource Partners	67.246	1,84	
2.750.000 AMCOL International	55.680	1,53	
912.000 Aracruz Celulose	28.085	0,77	
2.350.000 Coca-Cola Enterprises	22.165	0,61	
2.350.000 Colgate-Palmolive	98.695	2,71	
710.000 Consol Energy	26.480	0,72	
12.300.000 Constellation Brands	145.133	3,98	
2.100.000 Corn Products International	52.394	1,44	
3.200.000 Dentsply International	69.952	1,92	
2.655.000 Eastman Kodak	23.837	0,65	
2.510.000 Elizabeth Arden	28.670	0,78	
1.325.000 Esterline Technologies	38.680	1,06	
2.850.000 FMC	116.344	3,19	
1.700.000 Kansas City Southern	47.787	1,31	
1.261.778 Minerals Technologies	46.079	1,26	
2.070.000 Peabody Energy	73.648	2,02	
6.175.000 Pilgrim's Pride	44.973	1,23	
1.200.000 Schnitzer Steel 'A'	44.866	1,23	
2.800.000 The Scotts Miracle-Gro Company	41.367	1,13	

M&G Global Basics Fund

FINANCIAL STATEMENTS

PORTFOLIO STATEMENT (continued)

as at 31 August 2008

Holding	Value £'000	31.08.08 %	31.08.07 %
United States (continued)			
1,400,000 VF	60,803	1,67	
950,000 Wimm Bill Dan Foods	37,212	1,02	
950,000 Yum! Brands	19,017	0,52	
Portfolio of investments (notes 1b & 1c opposite)	3,606,841	98,92	97,35
Net other assets	39,524	1,08	2,65
Net assets attributable to shareholders	3,646,365	100,00	100,00

[a] AIM quoted.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

Largest purchases	£'000
Santos	114,243
Constellation Brands	83,852
Imerys	74,251
Unilever	69,206
Futuris	56,441
Acuity Brands	56,345
Wimm Bill Dan Foods	53,306
Lonmin	49,485
Sherritt International	48,200
Colgate-Palmolive	40,902
Kansas City Southern	40,480
AMMB Holdings	38,136
Johnson Matthey	37,561
Norsk Hydro	35,591
Aracruz Celulose	32,345
European Aeronautic Defence and Space	31,170
AMCOL International	30,758
Noble Group	30,196
The Hongkong and Shanghai Hotels	29,830
LVMH	29,495
Other purchases	547,068
Total purchases for the year	1,528,861

Sales	£'000
CSR	71,096
K&S	70,436
Hess	46,031
Total	42,500
Tele Atlas	38,091
Centennial Coal	35,435
Consol Energy	31,151
Ryder Systems	29,123
Eramet	28,607
Coates Hire	25,421
The Cooper Companies	20,000
Yamaha Motor	13,237
Patriot Coal	12,022
StatoilHydro	11,573
Sondex	10,608
Chaoda Modern Agriculture	6,968
Bio-Treat Technology	4,052
Esterline Technologies	3,707
Minerals Technologies	1,247
Robert Mondavi 'A'	142
Total sales for the year	501,447

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) **Underwriting commission:** This is taken to income and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case an appropriate proportion of the commission is deducted from the cost of these shares.

h) **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.

i) **Apportionment of income and expenses to multiple share classes:** 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.

j) **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.

M&G Global Basics Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

k) **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.

l) **Distribution policy:** The policy of the sub-fund is to distribute all available income, after deduction of expenses properly chargeable against income. 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 do not 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 and euro cash positions. 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 exposures to foreign currencies, other than euros, are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

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).

3 Net gains on investments

	2008 £'000	2007 £'000
Non-derivative securities	225.061	352.158
Special dividends taken to capital	15.749	2.691
Net gains on investments	240.810	354.849

4 Income

	2008 £'000	2007 £'000
Bank interest	602	662
Deposit interest	1.924	3.063
HM Revenue & Customs interest	34	1
Overseas dividends	51.201	37.370
Stock dividends	870	192
UK dividends	8.347	5.484
Underwriting commission	86	9
	63.064	46.781

5 Expenses

	2008 £'000	2007 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	47.997	35.167
Administration fee	4.594	3.274
	52.591	38.441
Payable to the Depositary or associate		
Depositary's fee (including VAT)	114	87
Distribution fees	5	0
	119	87
Other expenses		
Audit fee (including VAT)	9	9
Dividend charges	9	0
Legal fees	0	3
Overseas tax agents fees [a]	63	31
Regulatory fees	4	2
Safe custody charge	321	194
Tax consultancy fees [a]	10	9
Transaction charges	39	29
	455	277
VAT recoverable		
Current year	(11)	13
Prior year	(114)	110
	(125)	123
Total expenses	53.040	38.928

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

M&G Global Basics Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

6 Taxation

	2008 £'000	2007 £'000
a) Analysis of charge in the year		
Corporation tax	192	1,035
Overseas tax	6,160	5,338
Overseas tax recoverable: exchange rate movements	(144)	0
Overseas tax recovered: previously written off	0	(93)
Double taxation relief	(192)	(1,035)
US State & Federal taxes	385	0
Current tax charge (note 6b)	6,401	5,245
Deferred US State & Federal taxes (note 6c)	4,862	0
	11,263	5,245

b) Factors affecting taxation charge for the year

Net income before taxation	10,015	7,850
Corporation tax at 20%	2,003	1,570
Effects of:		
Tax on special dividends taken to capital	441	538
UK dividends ^[a]	(1,669)	(1,097)
Stock dividends not taxable	(102)	(38)
Expenses not deductible for tax purposes	8	6
Income taxable in different periods	(489)	56
Overseas tax	6,160	5,338
Overseas tax recoverable: exchange rate movements	(144)	0
Overseas tax recovered: previously written off	0	(93)
Double taxation relief	(192)	(1,035)
US State & Federal taxes	385	0
Current tax charge (note 6a)	6,401	5,245

[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 US State & Federal taxes (note 6a)	4,862	0
Provision at the end of the year	4,862	0

The sub-fund has not recognised a deferred tax asset of £11,690,000 (31.08.07: £6,055,000) 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: the sub-fund had a commitment to warrants outstanding of £274,921).

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.

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 20,56% (31.08.07: 20,92%) 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	635,374	396,208	2,719	441	638,093	396,649
Canadian dollar	113,117	83,614	(1)	(1,241)	113,116	82,373
Euro	806,570	666,198	4,856	16,733	811,426	682,931
Hong Kong dollar	51,245	26,274	581	0	51,826	26,274
Malaysian ringgit	34,519	0	0	0	34,519	0
Norwegian krone	26,741	6,410	0	0	26,741	6,410
Singapore dollar	88,363	45,571	8	0	88,371	45,571
Swiss franc	0	0	0	38	0	38
US dollar	1,249,518	800,707	2,646	520	1,252,164	801,227
	3,005,447	2,024,982	10,809	16,491	3,016,256	2,041,473
Sterling	601,394	329,384	28,715	47,623	630,109	377,007
Total	3,606,841	2,354,366	39,524	64,114	3,646,365	2,418,480

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).

M&G Global Basics Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

10 Portfolio transaction costs

	2008 £'000	2007 £'000
a) Purchases		
Purchases excluding transaction costs	1,524,761	934,205
Commissions	2,787	1,891
Taxes	1,313	650
Total transaction costs	4,100	2,541
Total purchases including transaction costs	1,528,861	936,746
b) Sales		
Sales excluding transaction costs	502,291	668,966
Commissions	(834)	(1,391)
Taxes	(10)	(4)
Total transaction costs	(844)	(1,395)
Total sales net of transaction costs	501,447	667,571

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.

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'	486.940	673.233	308.822	363.642
Class 'X'	87.182	136.968	52.185	69.179
Euro				
Class 'A'	n/a	1,734.396	n/a	1,482.250
Class 'C'	n/a	504.127	n/a	138.042
US dollar				
Class 'A'	n/a	22.480	n/a	4.349
Class 'C'	n/a	1.039	n/a	11

The net asset value per share and the number of shares are given in the comparative table on page 70. The distribution per share is given in the distribution table on page 76. Each share class has the same rights on winding-up.

12 Finance costs

	2008 £'000	2007 £'000
Income shares (sterling)		
Class 'A' - Final	709	855
Class 'X' - Final	132	149
Accumulation shares (sterling)		
Class 'A' - Final	978	1,004
Class 'X' - Final	207	197
Accumulation shares (euro)		
Class 'A' - Final	0	446
Class 'C' - Final	3,703	1,337
Accumulation shares (US dollar)		
Class 'A' - Final	8	9
Class 'C' - Final	8	0 [a]
Finance costs: Dividend distributions	5,745	3,997
Income deducted on cancellation of shares	630	573
Income received on issue of shares	(2,950)	(1,336)
Finance costs: Distributions	3,425	3,234
Finance costs: Interest	9	3
Total finance costs	3,434	3,237
Net (expense) / income per statement of total return	(1,248)	2,605
Expenses offset against capital	39	29
Stock dividends not distributed	(870)	(192)
Tax relief on stock and special dividends taken to capital	221	0
US State & Federal taxes offset against capital	5,247	0
Overseas tax offset against capital	36	795
Undistributed income brought forward	13	10
Undistributed income carried forward	(13)	(13)
Finance costs: Distributions	3,425	3,234

[a] The final distribution for US dollar Class 'C' (Accumulation) shares in 2007 was \$108.

M&G Global Basics Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE					
Dividend distributions on Income shares	Tax credit	Net income	Equalisation	Distribution payable/paid	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Final					
Group 1:	0,0922	0,8300	-	0,8300	1,4260
Group 2:	0,0402	0,3616	0,4684	0,8300	1,4260
Class 'X' - Final					
Group 1:	0,0964	0,8680	-	0,8680	1,4740
Group 2:	0,0357	0,3214	0,5466	0,8680	1,4740
Dividend distributions on Accumulation shares	Tax credit	Net income	Equalisation	Amount reinvested	
				2008	2007
Sterling	p	p	p	p	p
Class 'A' - Final					
Group 1:	0,1369	1,2325	-	1,2325	2,1118
Group 2:	0,0597	0,5369	0,6956	1,2325	2,1118
Class 'X' - Final					
Group 1:	0,1414	1,2724	-	1,2724	2,1546
Group 2:	0,0524	0,4712	0,8012	1,2724	2,1546
Euro	€	€	€	€	€
Class 'A' - Final					
Group 1:	-	-	-	-	0,7100
Group 2:	-	-	-	-	0,7100
Class 'C' - Final					
Group 1:	1,9002	17,1020	-	17,1020	24,0510
Group 2:	0,4586	4,1277	12,9743	17,1020	24,0510
US dollar	¢	¢	¢	¢	¢
Class 'A' - Final					
Group 1:	0,0436	0,3920	-	0,3920	2,3250
Group 2:	-	-	0,3920	0,3920	2,3250
Class 'C' - Final					
Group 1:	0,9446	8,5010	-	8,5010	5,4150
Group 2:	-	-	8,5010	8,5010	5,4150

Final period 01.09.07 - 31.08.08

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

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%

