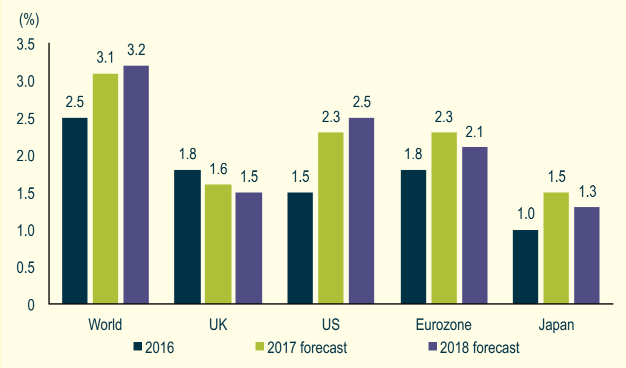
Quarterly market summary

4th Quarter 2017

Economic overview

Further evidence of synchronised global economic improvement was signalled by higher measures of economic activity and company profits, along with lower unemployment in almost all regions. The UK, however, was an exception as economic growth forecasts were reduced. Central bankers are now considering the withdrawal of emergency measures, such as record low interest rates and asset purchases, to curb any rise in inflation. For example, interest rates were increased in both the UK and US while the European Central Bank is scaling back its asset purchase programme. For the moment, however, inflation remains generally subdued. In currency markets, sterling and the euro strengthened modestly relative to the US dollar and Japanese yen. The price of oil rallied during the quarter, helped by an agreement among oil-producing countries to restrict production.

Real GDP growth

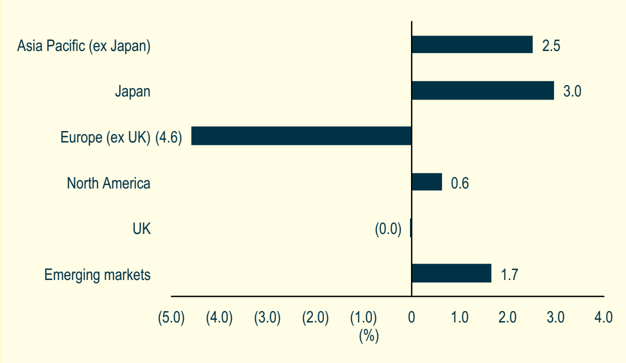


Source: Consensus Forecast, September 2017

Market overview

It was a positive quarter for most stockmarkets, many of which rose to all-time highs, while others reached their highest levels for many years. Investor sentiment was boosted by better economic data and robust company earnings. Among the markets to attain record highs were the UK, US, Hong Kong and Indonesia, thus helping the global equity (company shares) index to reach its own record. Over the quarter, sterling rose against several currencies, including the US dollar and Japanese yen, which reduced the gains from assets in those countries for UK investors. Many of the best-performing markets were in the Far East, including Japan, Singapore and China, although South Africa also enjoyed a notable rally. By contrast, shares in mainland Europe and Latin America lagged. Bond markets were generally unchanged, despite the likelihood that central bankers will soon reduce the actions that have been so supportive.

Equity market performance v. FTSE World Index (4th quarter 2017)



Source: Thomson Reuters Datastream

Sterling

M&G INVESTMENTS

UK equities

Despite a continued lack of certainty over the UK's withdrawal from the European Union and a reduction in the levels of economic activity expected in the coming years, UK shares had a positive quarter. UK companies seem to be making good levels of profits and some economic signals, such as employment, are encouraging. The Bank of England felt confident enough to raise interest rates for the first time in a decade. Both the FTSE 100 Index, which comprises many multinational companies, and the more domestically oriented FTSE 250 Index of medium-sized companies, reached record highs during the quarter. The best-performing companies were oil & gas producers and miners, helped by higher prices for oil and metals.

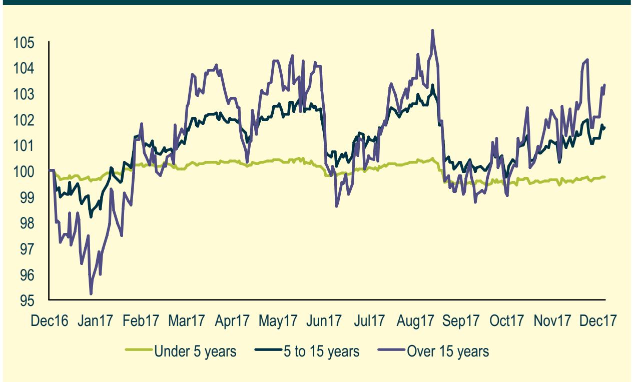
UK equity market indices (12 months to 31.12.17)

Source: Thomson Reuters Datastream — Rebased to 100

UK bonds

The governor of the Bank of England increased the rate of interest by 0.25 % in November, the first rise in borrowing charges for more than 10 years. He said that the change was required to combat inflation, despite the ongoing uncertainty over Brexit. Inflation in the UK hit a five-year high in November, which helped the performance of index-linked government bonds. Higher interest rates weighed on the prices of government bonds that are close to redemption, which underperformed those with a longer time before repayment. It appeared that investors took the view that interest rates are unlikely to increase rapidly in the future, enabling most UK bonds to appreciate steadily in price. The pound appreciated modestly relative to the US dollar during the quarter but was down a little against the euro.

Gilt indices (12 months to 31.12.17)



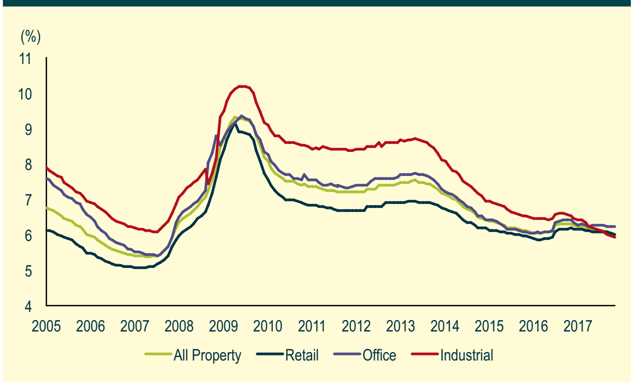
Source: Thomson Reuters Datastream — Rebased to 100

UK Property

UK commercial property looks on course to have delivered a total return of over 10 % for 2017. This is much better than most commentators had expected and was due to solid capital value growth, in particular from Industrials. While growth in capital values in Offices and Retail has lagged, both sectors have nevertheless been able to avoid the worst excesses of negative 'Brexit' sentiment.

The overall resilience of UK commercial property is encouraging, and is due in part to buying by overseas investors following the decline in sterling. Looking ahead to 2018, it is expected that income will once again dominate returns, with investors attracted to those assets that display resilience, international appeal and the ability to adapt to an evolving economy in a low-growth environment.

Equivalent yields (to 30.11.17)

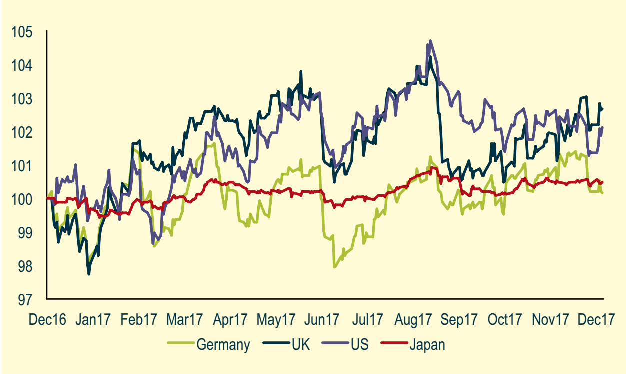


Source: IPD

International bonds

Most international bond markets rallied in price during the quarter, as central banks remained broadly supportive, despite moving gradually towards the withdrawal of policy measures designed to boost economic activity. The Federal Reserve raised US interest rates again, while policymakers in Europe are to scale back the asset purchases that have kept interest rates at historically low rates. Among the different issuers, US bonds were notably weak, while European bonds generally rose in price, particularly those from Portugal. Emerging market bonds also performed well as investors recognised the greater levels of income these assets can deliver and as their appetite for risk increased.

10-year government bond markets (12 months to 31.12.17)



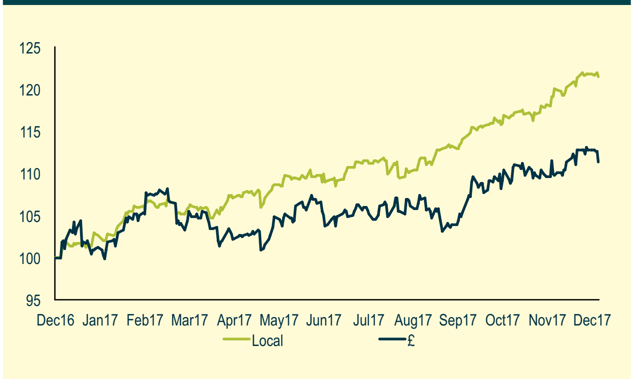
Source: Thomson Reuters Datastream Rebased to 100

Local currency

North America

After a year in office, President Trump finally managed to gain approval from Congress for the first part of his legislative programme, concerning large changes to company taxation. Hopes that this tax reform might lead to higher corporate profits and dividend payments helped the broad S&P 500 Index to hit a series of record highs, along with other market indices. US economic data remained very encouraging, which also supported investor sentiment, as did the healthy profits being made by US companies. Among the best-performing industry sectors were retailers, technology companies and financial stocks, while the shares of healthcare providers and utilities lagged.

FTSE World North America Index (12 months to 31.12.17)

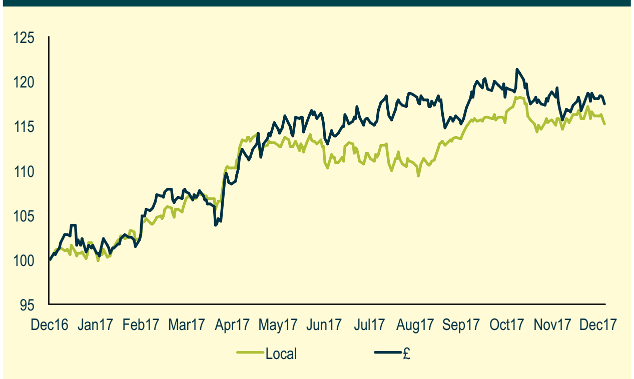


Source: Thomson Reuters Datastream Rebased to 100

Europe

Stronger-than-expected growth in the European economy was offset by political uncertainty, as Catalonia tried to declare independence from Spain and talks continue to try to form a coalition government in Germany. The region's stockmarkets underperformed markets in most other countries. The persistent rise of the euro against other currencies led some investors to question whether exports may come under pressure, although the stronger euro boosted the returns from eurozone assets to UK investors. Stronger performers included Austria and Germany, while Italy and Spain lagged. Italian assets are coming under pressure from concern about the country's election in March 2018. Miners and consumer-related companies performed well, while telecom companies and banks were weak.

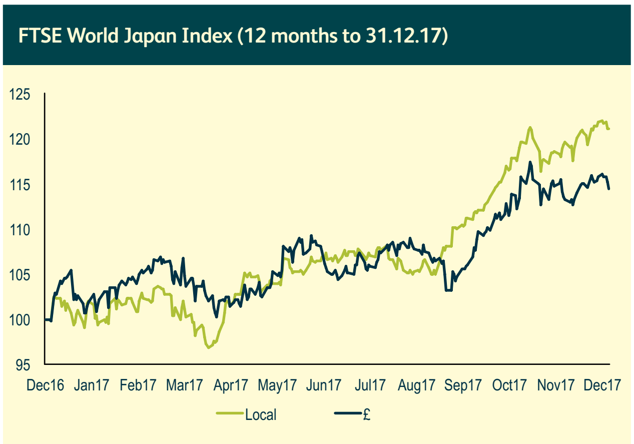
FTSE World Europe (ex-UK) Index (12 months to 31.12.17)



Source: Thomson Reuters Datastream Rebased to 100

Japan

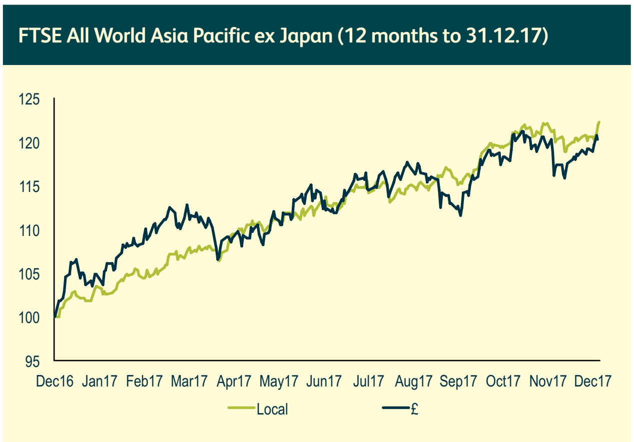
The Japanese stockmarket was the leading performer globally during the final quarter of 2017, rising to levels not seen for at least 20 years. A landslide election victory for President Abe was seen as positive for share prices, as it should enable the government's 'Abenomics' reform programme, which seems to be boosting economic growth, to be continued. Share prices were supported by healthy corporate earnings, attractive valuations and a stable government. The best performers included energy companies, although utility stocks declined. In sterling terms, the overall gains were slightly lower, due to the modest decrease in the value of the yen relative to sterling over the quarter.



Source: Thomson Reuters Datastream Rebased to 100

Pacific Basin Ex-Japan

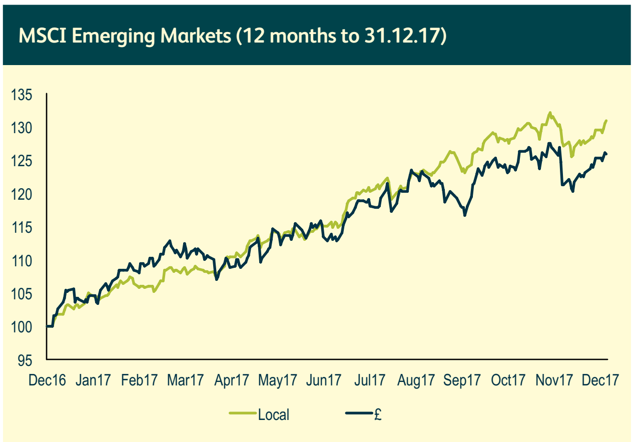
The quarter was positive for the Asia Pacific region as a whole, as investors seemed to move on from the ongoing war of words between the leaders of the US and North Korea. Indeed, the South Korean stockmarket was one of the strongest during the quarter, recovering from the decline experienced in the third quarter. Many companies in the Pacific Rim are generating strong earnings and this is being reflected in higher share prices. Other countries to perform well included India and Singapore, while New Zealand underperformed. In terms of sectors, healthcare and consumer staples producers rallied, although telecom companies and utilities trailed.



Source: Thomson Reuters Datastream Rebased to 100

Emerging markets

The performance of emerging markets was generally positive during the fourth quarter, led by Africa and Asia, although several South American markets suffered declines. The standout performer was South Africa, where hopes of improvement in the political situation encouraged investors. Other emerging markets to see gains included Greece and South Korea, with Mexico and Brazil among the fallers. Mexico is seen as being at risk from US tax reforms, which could divert investment from Mexico to the US, while Brazil experienced political uncertainty. Meanwhile, the Chinese stockmarket reached the highest levels for two years and Russian shares rallied with the price of oil and other natural resources.



Source: Thomson Reuters Datastream Rebased to 100

Please note that the views on markets expressed in this report are those of M&G as at 31.12.17 and should not be taken as investment recommendations.

Past performance is not a guide to future performance. The value of investments, and the income from them, will fall as well as rise and you may not get back the original amount you invested.

Market data

		4th Quarter 2017 %		12 months to 31.12.17 %	
		Local	Sterling	Local	Sterling
Equity index total returns*					
FTSE World		5.5	5.0	19.7	13.3
FTSE All World ex UK		5.6	5.1	20.9	14.0
FTSE All-Share		5.0	5.0	13.1	13.1
FTSE 100		5.0	5.0	12.0	12.0
FTSE Mid 250		4.8	4.8	17.8	17.8
FTSE Small Cap		4.2	4.2	18.2	18.2
FTSE World Europe (ex UK)		0.3	0.4	15.3	17.5
FTSE World France		-0.1	0.7	14.4	19.0
FTSE World Germany		1.4	2.2	13.9	18.4
FTSE World Italy		-3.7	-3.0	15.4	20.0
FTSE World Spain		-2.9	-2.2	11.5	16.0
FTSE World North America		6.5	5.6	21.4	11.3
S&P 500 Composite Index		6.6	5.8	21.8	11.3
FTSE World Japan		8.9	7.9	21.0	14.4
Nikkei 225		11.8	10.8	19.1	12.6
FTSE All World Asia Pac (ex Jp)		6.8	7.5	28.0	23.4
FTSE Australia		7.2	6.0	11.9	10.4
FTSE China (All Cap)		8.0	7.1	44.7	31.1
FTSE Hong Kong		7.1	6.2	37.9	24.9
FTSE Korea		5.0	11.4	31.6	35.7
FTSE Singapore		8.4	9.3	25.9	24.3
FTSE Thailand		5.7	7.3	20.2	20.7
MSCI Emerging Markets		5.7	6.6	31.0	25.8
MSCI Brazil		2.9	-2.7	26.9	13.7
MSCI Argentina		7.4	6.5	73.6	58.6
MSCI Mexico		-0.9	-8.8	10.4	6.2
MSCI South Africa		11.4	20.5	23.3	24.4
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		2.0	2.0	1.8	1.8
UK gilts under 5 years		0.2	0.2	-0.3	-0.3
UK gilts 5 - 15 years		1.5	1.5	1.7	1.7
UK gilts over 15 years		3.7	3.7	3.3	3.3
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		3.5	3.5	2.3	2.3
iBoxx £ Non-Gilts Index		1.8	1.8	4.3	4.3
Salomon World Govt Bond Index		1.0	0.2	7.5	-1.8
10-yr benchmark bond returns*	**Yield as at 31.12.17 (%)**				
UK	1.2	1.9	1.9	2.7	2.7
US	2.4	-0.2	-1.0	2.1	-6.7
Japan	0.0	0.3	-0.6	0.5	-5.0
Germany	0.4	0.5	1.2	0.2	4.2
France	0.7	1.2	2.0	1.9	6.0
Currency changes vs sterling	**Exchange rate as at 31.12.17**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.3528	-0.8	–	-8.7	–
Euro	1.1265	0.7	–	4.0	–
Yen	152.39	-0.9	–	-5.4	–
Interest rates	**Rates as at 31.12.17 (%)**				
UK base rate	0.50	0.25	–	0.25	–
US Fed Funds rate	1.50	0.25	–	0.75	–
ECB base rate	0.00	0.00	–	0.00	–
Commodities	**Price level as at 31.12.17**				
Oil (Brent crude) US$ per barrel	66.6	15.7	14.8	17.5	7.3
Gold bullion US$/troy oz	1,303.5	1.5	0.7	12.6	2.9
Comm Research Bureau Index		3.5	2.7	0.0	-8.7

* Returns include income

Source: Thomson Reuters Datastream

All data is sourced from M&G unless otherwise stated.

Past performance is not a guide to future performance. The value of investments, and the income from them, will fall as well as rise and you may not get back the original amount you invested.

Currency exchange fluctuations will have an impact on the value of your investment.

For definitions of the investment terminology used within this document please see the glossary at: www.mandg.co.uk/investor/help-centre/glossary

Contact

Client Directors

Lian Golton	020 7548 3169*
Orla Haughey	020 7548 3252*
Alec Spooner	020 7548 3251*

Email us

lian.golton@**mandg.co.uk****
orla.haughey@**mandg.co.uk****
alec.spooner@**mandg.co.uk****

Our website

www.mandg.co.uk/institutions/

* For security purposes and to improve the quality of our service, we may record and monitor telephone calls.

** Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

M&G Investments Pooled Pensions

M&G Investments Pooled Pensions manage a full range of funds on both an active and passive basis for defined benefit and defined contribution clients. We believe that the quality of client service is an important part of our overall pooled fund service. Our team of Client Directors is responsible for all aspects of our relationships with individual clients, including regular attendance at trustee meetings to present performance and investment strategy.

Please note that the views on markets expressed in this report are those of M&G as at 31.12.17 and should not be taken as investment recommendations.

Issued by M&G Financial Services Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. M&G Pooled Pension funds are provided under an insurance contract issued by Prudential Pensions Limited and Prudential Pensions Limited has appointed M&G Financial Services Limited as a distributor of its products. The registered office of both companies is Laurence Pountney Hill, London, EC4R 0HH. Both companies are registered in England under numbers 923891 and 992726 respectively. **JAN 18/56064**