POOLED PENSIONS

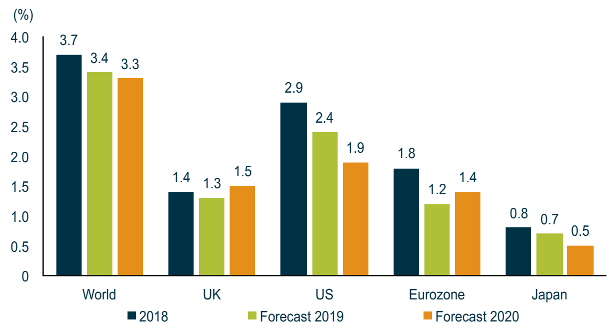
Quarterly market summary

1st Quarter 2019

Economic overview

Worries about faltering global economic growth preoccupied investors during the quarter. In the US, job creation came to a near halt, with non-farm payrolls for the month of February recording its weakest gain in more than a year and the economic growth rate slowing in the final quarter of 2018. Meanwhile, weak Chinese export data provided evidence that the trade dispute with the US has been hurting China. In Europe, manufacturing activity across the eurozone was the worst in five years. It appears central banks are doing their best to respond to rapidly worsening outlook for global growth. The US Federal Reserve kept rates on hold in March and signalled no rises for the rest of 2019 and the European Central Bank indicated that interest rates would stay at record lows for longer.

Real GDP growth

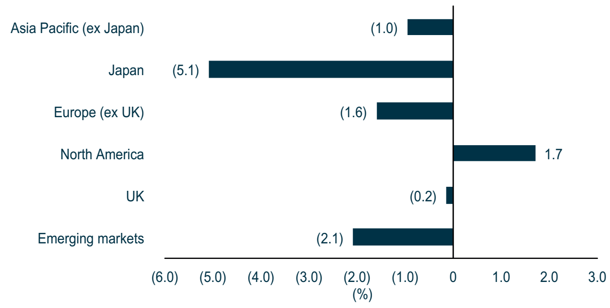


Source: Bloomberg Consensus Global Rate Forecasts, April 2019

Market overview

Global stockmarkets recorded a strong start to the year, recovering from their disappointing performance in the previous quarter. The bulk of the gains were recorded in the first two months of the year, with January particularly strong. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold for the time being drove sentiment. In fixed income markets, bond yields fell as economic growth disappointed, and a greater risk appetite resulted in corporate bond spreads narrowing. In currencies, sterling strengthened as fears of a no-deal Brexit receded. In commodities, the oil price had a particularly good quarter.

Equity market performance v. FTSE World Index (1st quarter 2019)



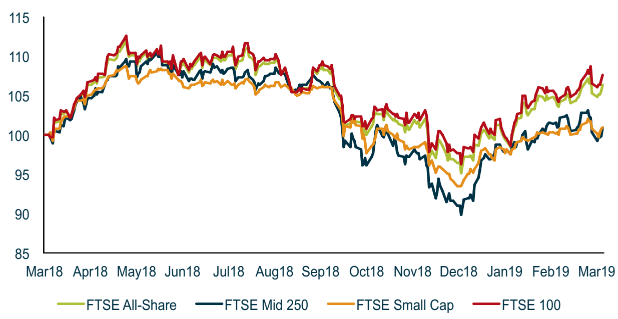
Source: Thomson Reuters Datastream

Sterling

UK equities

UK stockmarkets rallied strongly, with investor sentiment boosted by confirmation that US interest rates were unlikely to rise again this year, as well as signs of progress in US-China trade talks. Later in the quarter, concern about a slowing global economy prompted some moderate selling. The UK had to deal with its own problem of Brexit, which triggered volatility in share prices, which were rising when a 'soft' exit, or a delay, seemed more likely and falling when a 'no-deal' exit appeared possible. In the end, the UK did not leave on March 29, as had been planned. Sterling strength meant that the domestically-focused FTSE 250 outperformed the more export-oriented FTSE 100, although the gap narrowed in March.

UK equity market indices (12 months to 31.03.19)



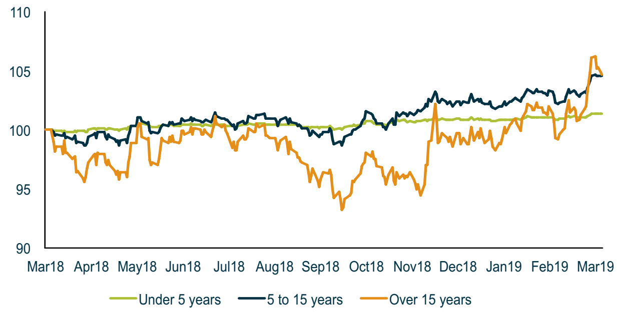
Source: Thomson Reuters Datastream

Rebased to 100

UK bonds

UK government bonds (gilts) delivered solid returns in the first quarter of 2019 as dovish signals from the world's central banks, against a backdrop of slowing global growth, helped support demand for traditional safe haven assets. The US Federal Reserve now appears to have ruled out any further rate hike this year, while the European Central Bank President Mario Draghi also stated that lending rates would not be increased if data continued to deteriorate. Gilts additionally benefited from ongoing Brexit uncertainty, with 10-year yields briefly dipping below 1% in March. UK corporate bonds also performed well over the period, as the general improvement in investor sentiment helped boost returns.

Gilt indices (12 months to 31.03.19)



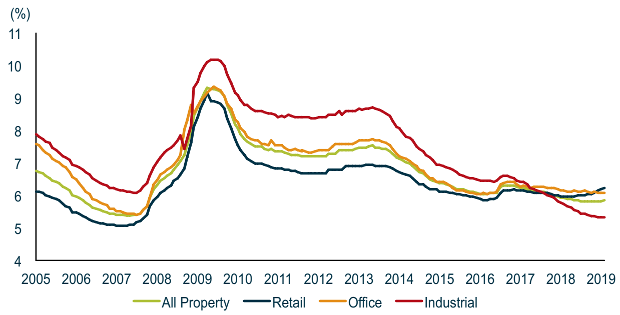
Source: Thomson Reuters Datastream

Rebased to 100

UK property

UK commercial property got off to a subdued start in 2019, a stark contrast to the previous year, when the market recorded a total return of 6.3%, according to property consultant CBRE. So far this year (up to the end of February, the latest date for which data is available), capital values have fallen in the Retail sector - reflecting the trend experienced throughout 2018. Conversely, values have continued to rise in the Office and Industrials sectors. But despite weakness in Retail, including income, All UK property recorded a small positive total return for the first two months of the year. Looking ahead, we expect UK commercial property to generate low-single-digit returns over the next five years, with rental income representing a significant proportion of returns. Both domestic and overseas investors remain keen on UK commercial property, tempted by its attractive yield and despite the UK's political challenges.

Equivalent yields (to 28.02.19)

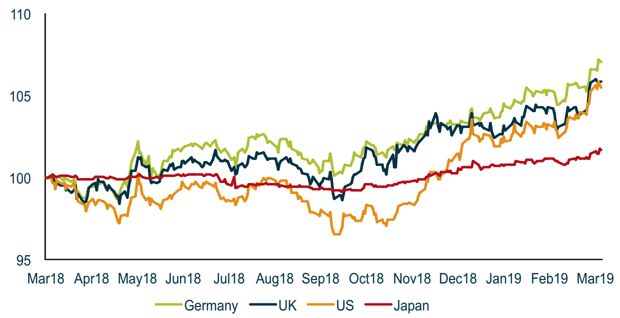


Source: IPD

International bonds

Global bonds delivered positive returns in the first quarter, helped by a more dovish stance from the US Federal Reserve (Fed) and signs of reduced trade tensions between the US and China. Importantly, the Fed dampened expectations of further interest rate rises in the year ahead, given developments such as a slowdown in global economic growth and generally muted inflation. Against this backdrop, core government bond yields declined and credit markets produced gains. Within the latter, high yield bonds recorded some of the best returns. Areas of emerging market debt also rallied after their underperformance in 2018. Hard currency emerging market bonds outperformed their local currency counterparts amid a rally across the asset class that was supported by sizeable investor inflows.

10-year government bond markets (12 months to 31.03.19)



Source: Thomson Reuters Datastream

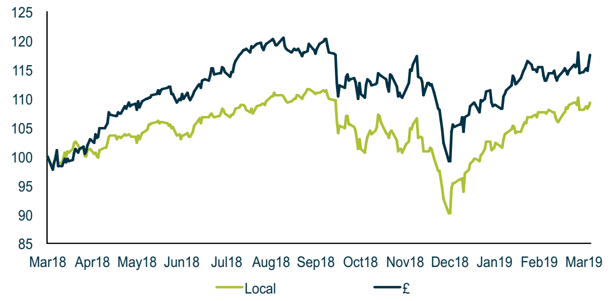
Local currency

Rebased to 100

North America

US stockmarkets enjoyed a very positive start to the year, making back most of the losses suffered in the final quarter of 2018. Investors were encouraged by the Federal Reserve confirming that it was unlikely to increase interest rates any further in 2019. Other supportive factors included signs of progress in trade talks with China, which boosted the share prices of technology companies, a generally positive corporate earnings season and US economic growth not being as bad as feared. The rally slowed in March as falls in US government bond yields raised some concern about a possible recession. Energy stocks led the way, boosted by a significant rise in the oil price. The Canadian stockmarket also rose, reflecting the strength in the US.

FTSE World North America Index (12 months to 31.03.19)

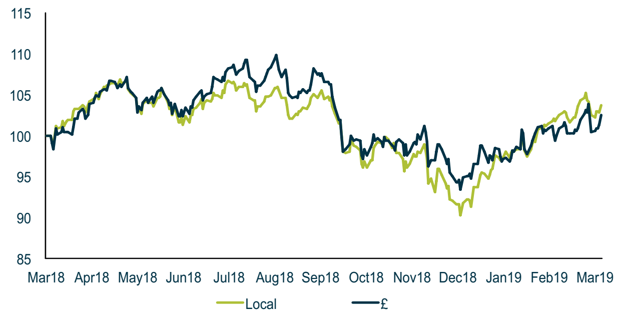


Source: Thomson Reuters Datastream — Rebased to 100

Europe

There was a notable improvement in investor sentiment in the quarter, and European stockmarkets rose. Optimism about the possible resolution of the US-China trade dispute boosted confidence. Investors also welcomed the Federal Reserve's adoption of a patient approach to future interest rate rises. These factors outweighed concerns about the weakness of the eurozone economy and uncertainty about the UK's departure from the European Union. The European Central Bank (ECB) lowered its economic growth forecast for the single currency area in 2019, with Italy in technical recession according to fourth-quarter 2018 data and economic activity slowing in Germany. Against this background, most sectors rose, with consumer staples, information technology and materials among the best performers. In contrast, communication services and financials were notable laggards.

FTSE World Europe (ex-UK) Index (12 months to 31.03.19)

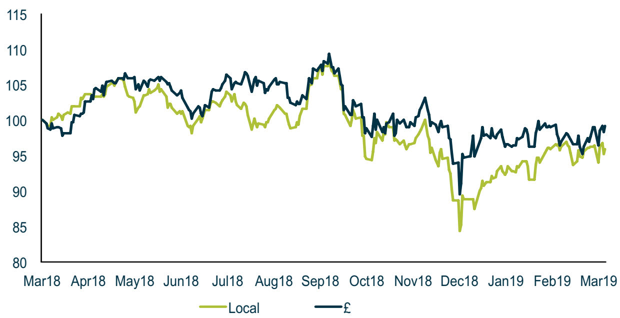


Source: Thomson Reuters Datastream — Rebased to 100

Japan

The Japanese stockmarket rebounded in the first quarter, along with other markets globally. The rally supports our view that the market had reacted emotionally in the final quarter of 2018. While there are widespread concerns about global growth, Japanese companies are displaying resilience; recent financial results have generally been encouraging. There have been some downgrades, but these have been in areas of the market where expectations, as well as prices, had become overly optimistic. In our view, prices are increasingly aligning with these businesses' underlying earnings, so we are seeing more sensible valuations. It is a welcome reversal of the previous market dynamic, when there was a large dislocation between valuations and company fundamentals.

FTSE World Japan Index (12 months to 31.03.19)

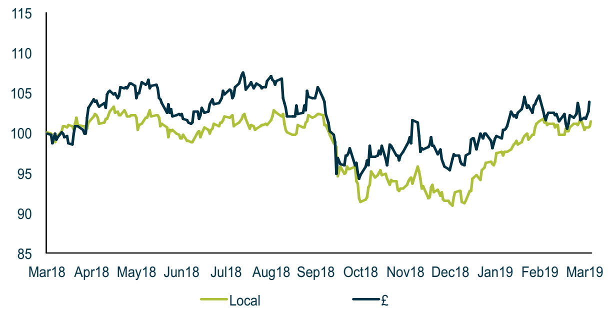


Source: Thomson Reuters Datastream — Rebased to 100

Pacific Basin ex-Japan

In the first quarter, stockmarkets in Asia Pacific ex Japan rebounded from recent declines. Optimism about a US-China trade deal encouraged a greater appetite for risk; investors also welcomed the Federal Reserve's patient approach to future interest rate rises. These factors outweighed persistent fears about a global economic slowdown. China was one of the best performing markets, amid signs of progress in trade talks and expectations of government stimulus measures. Shares in Australia, whose economic fortunes are closely linked to those of China, and Taiwan, a large exporting nation, also rose. On the other hand, uncertainty about forthcoming elections and higher oil prices weighed on share prices in India. Stockmarkets in smaller Southeast Asian nations such as Indonesia and Malaysia underperformed as well.

FTSE All World Asia Pacific ex Japan (12 months to 31.03.19)

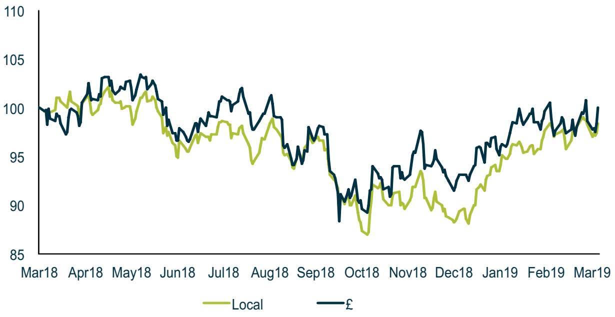


Source: Thomson Reuters Datastream Rebased to 100

Emerging markets

Emerging market stocks recovered from recent falls in the quarter but trailed their developed market counterparts. Investor risk appetite increased amid optimism about the resolution of the US-China trade dispute and the Federal Reserve's patient approach to future interest rate rises. China's stockmarket rallied on hopes of a trade deal and expectations of government support for the country's slowing economy. As oil prices rose, share prices in Russia, the world's largest crude producer, also gained. Stocks in Colombia, Egypt and Peru rallied as well. In contrast, South Korea's stockmarket underperformed amid worries about slowing global growth. Smaller Southeast Asian markets such as Indonesia and Malaysia lagged too. Power shortages and economic concerns weighed on share prices in South Africa.

MSCI Emerging Markets (12 months to 31.03.19)



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 31.03.19 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

		1st Quarter 2019 %		12 months to 31.03.19%	
		Local	Sterling	Local	Sterling
Equity index total returns*					
FTSE World		12.2	9.6	6.3	11.1
FTSE All World ex UK		12.4	9.6	5.8	10.9
FTSE All-Share		9.4	9.4	6.4	6.4
FTSE 100		9.5	9.5	7.7	7.7
FTSE Mid 250		9.8	9.8	1.0	1.0
FTSE Small Cap		6.2	6.2	1.0	1.0
FTSE World Europe (ex UK)		12.5	8.0	3.7	2.6
FTSE World France		12.8	8.3	6.8	5.0
FTSE World Germany		9.2	4.8	-4.7	-6.3
FTSE World Italy		16.6	12.0	-1.1	-2.8
FTSE World Spain		9.4	5.0	0.6	-1.1
FTSE World North America		13.7	11.3	9.3	17.5
S&P 500 Composite Index		13.7	11.1	9.5	17.9
FTSE World Japan		7.8	4.5	-4.2	-0.9
Nikkei 225		6.0	2.7	-1.2	2.2
FTSE All World Asia Pac (ex Jp)		11.1	8.6	0.2	4.0
FTSE Australia		10.6	9.0	12.5	12.1
FTSE China (All Cap)		17.6	14.6	-6.4	0.8
FTSE Hong Kong		15.9	13.0	5.0	13.0
FTSE Korea		6.7	2.5	-10.5	-9.5
FTSE Singapore		5.4	3.7	-4.6	-0.6
FTSE Thailand		5.8	6.1	-3.6	2.3
MSCI Emerging Markets		9.9	7.5	-1.6	0.1
MSCI Brazil		8.7	5.8	12.5	3.4
MSCI Argentina		-2.0	-4.2	-48.9	-45.0
MSCI Mexico		4.0	3.2	-5.9	-4.6
MSCI South Africa		4.8	2.2	0.2	-11.3
Bond index total returns*					
FTSE Actuaries UK Conventional Gilts All Stocks Index		3.4	3.4	3.7	3.7
UK gilts under 5 years		0.5	0.5	1.4	1.4
UK gilts 5 - 15 years		2.3	2.3	4.6	4.6
UK gilts over 15 years		6.0	6.0	4.7	4.7
FTSE Actuaries UK Index-Linked Gilts All Stocks Index		5.9	5.9	5.5	5.5
iBoxx £ Non-Gilts Index		4.1	4.1	3.7	3.7
Salomon World Govt Bond Index		1.7	-0.6	-1.6	6.0
10-yr benchmark bond returns*	**Yield as at 31.03.18 (%)**				
UK	1.0	2.7	2.7	5.9	5.9
US	2.4	3.0	0.7	5.5	13.5
Japan	-0.1	1.0	-2.1	1.7	5.2
Germany	-0.1	3.7	-0.5	7.1	5.2
France	0.3	4.5	0.3	5.7	3.9
Currency changes vs sterling	**Exchange rate as at 31.03.19**	**Q-Q chg %**		**Y-Y chg %**	
Dollar	1.3031	-2.3	–	7.7	–
Euro	1.1605	-4.0	–	-1.7	–
Yen	144.23	-3.1	–	3.4	–
Interest rates	**Rates as at 31.03.19 (%)**				
UK base rate	0.75	0.00	–	0.25	–
US Fed Funds rate	2.50	0.00	–	0.75	–
ECB base rate	0.00	0.00	–	0.00	–
Commodities	**Price level as at 31.03.19**				
Oil (Brent crude) US$ per barrel	68.6	29.0	26.1	-2.2	5.3
Gold bullion US$/troy oz	1,295.7	1.1	-1.2	-2.1	5.4
Comm Research Bureau Index		3.7	1.3	-4.5	2.8

* 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 3977 1666*
Orla Haughey 020 3977 3638*
Alec Spooner 020 3977 2505*

Email us

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

Our website

www.mandg.co.uk/institutions/

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