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With Profits Growth Fund

Quarterly Review Q1 2024

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Market Review and Outlook

Markets soar on summer rate cut optimism

It's been a strong quarter for stock markets, with hopes of summer interest rate cuts taking them to new highs. A resilient global economy and a solid earnings season – especially from the Magnificent Seven tech stocks – have also helped boost equities.

In this update, we reflect on these events and explore some of the highlights and the lowlights of the quarter – as well as bring our usual funds' view and outlook from our investment team.

Global stock market overview

After a hesitant start to the year, markets regained momentum swiftly, buoyed by technology stocks and increasing optimism regarding the US economy. US stocks soared at the beginning of the quarter, powered by the boom in artificial intelligence (AI). January's tech rally carried through to February and March, driving up developed market equities.

Markets rallied to record highs in March, driven by growing hopes that central banks will start cutting interest rates in the summer. Stocks soared after US Federal Reserve (Fed) officials reassured investors about the prospects for rate cuts this year.

It was a similar story in the UK, with the FTSE 100 surging to a near-record high amid the global rally. After last year's volatility, UK government bond yields have now settled, but are still higher than they have been in recent years. European stocks also surged, driven by strong earnings across the continent and hopes of imminent rate cuts by the European Central Bank (ECB).

Japan's Nikkei share price index broke its 1989 record and surged to a new high following decades of stagnation in March. The corporate sector is seeing record profits, the yen is strengthening and exports are booming after bouncing back from the pandemic.

China's markets have been struggling in the face of a slowing economy, worsening disinflation and property market turmoil. Chinese authorities are ramping up stimulus once again to boost market confidence, but it remains to be seen whether this will be enough to reverse the slump.

Price growth remains stubborn

While inflation has eased over the past year, it remains stubbornly high, leaving central banks wary of cutting interest rates too soon.

UK inflation unexpectedly remained at 4% in January, but then fell to almost its lowest level in two and a half years at 3.4% in February as price rises for food and eating out slowed sharply. Despite the fall, the Bank of England held interest rates at 5.25% for a fifth consecutive time in March, but said the prospects for a cut are now "moving in the right direction".

US inflation unexpectedly edged up to 3.2% in February, keeping the US Federal Reserve (Fed) on course to wait until the summer before it starts to lower interest rates. The Fed announced it was leaving interest rates at a 23-year high of 5.25% to 5.5% at its March meeting as it continues to assess the impact of cooling inflation on the economy.

The US central bank said it intends to keep interest rates at the current level until it has more confidence that inflation is on track toward its official 2% target. While inflation has eased more slowly this year, Fed officials have signalled that they still expect to cut their key interest rate three times in 2024.

With inflation slowing in the euro area to 2.4%, the ECB has also suggested interest rate cuts will soon be on the way. Now that central banks have inflation under control, June is looking the likely start date for global rate cutting cycle.

US economy continues to shine

While some major economies have been teetering on the edge of recession, the US economy continues to defy predictions of a major slowdown. US growth slowed far less than expected towards the end of 2023. Jobs growth remains strong and unemployment is close to record lows, boosting hopes of a soft landing.

Despite the UK entering a recession in the second half of last year, there are glimmers of hope. The UK economy returned to growth at the start of the year, while consumer and business sentiment have been more upbeat and house prices are rising.

The euro area economy avoided a technical recession at the end of last year, held back by shrinking German output and stalled French growth. Economists are now expecting the pace of growth across the region to pick up as inflation eases and wage growth boosts spending power.

What this means for Wesleyan: our funds view and outlook

Whilst bond markets dipped slightly, many of the world's leading stock markets, such as the US, Europe, and Japan, reached record highs during the quarter (as mentioned earlier). The majority of our funds were in positive territory at this time. Good news overall for those investors whose resolve has stayed strong in particularly turbulent times.

Whilst the UK's FTSE 100 index is not yet back to an 'all-time' high, it has risen steadily (by more than 8%) since October 2023 – helped by the fact that the economy started growing again in January (according to the latest official data).

Optimism has perhaps improved, thanks to the expectation that the Bank of England (BoE) is now in a position to be able to cut rates soon. However, we are unlikely to see this happen at the next meeting in May, with early summer looking more probable. Nevertheless, this will hopefully offer some reassurance for those invested in our lower to moderate risk funds that traditionally have a higher weighting in bonds. A cut in interest rates does come with a caveat: the BoE will need convincing that inflation will remain under control – regardless, it is encouraging to see it fall in February (as mentioned earlier).

We continue to diversify our portfolios into overseas markets, and we are making steady progress. Casting our net even wider, we are looking at global investment opportunities – from the US (because it's the biggest stock market in the world) to China (now looking more attractive post its 2023 slowdown). Japan is another country we monitor, particularly as March saw an end to the country's era of prolonged negative interest rates.

Our Commercial Property Portfolio continues to expand – with acquisitions of two new car dealerships purchased in the first quarter – as we look to increase the property weighting within our flagship With Profits Fund. Further acquisitions can be expected in the months ahead. In the meantime, the portfolio continues to generate a steady stream of rental income.

Spotlight on... Risk Ratings

Fund risk ratings are a helpful tool for understanding how funds may match up to a client's investment needs.

Ratings provided by independent agencies are a brilliant starting point for advisers working to determine the risk profile of different investment funds.

But, while ratings provide a fast and cost-effective way to determine suitability and meet regulatory requirements, they often do not provide the full picture.

As shown, our smoothed With Profits Growth Fund maintains a moderate risk score from several independent agencies, however when these ratings are calculated not all of these tools take into account smoothing mechanisms and the reduced level of risk the smoothing brings.

The Wesleyan With Profits Growth Fund has the following ratings:

Defacto
5 out of 10



Synaptic
3 out of 5



Dynamic Planner
5 out of 10



EV
6 out of 10



NB: EV rating stated refers to the rating over 15 years

Spotlight on... Risk Ratings

Regulators have enforced for some time that advisers should be doing their own due diligence in assessing every investment and considering all aspects of a client's financial situation.

Other factors that are helpful to consider alongside risk ratings include:

Maximum Drawdown

Maximum drawdown can give a clear idea of the possible losses an investor could experience in times of high market volatility or poor investment performance. While it has some limitations, it can provide realistic insights into the potential risk for clients and the losses they may face during different investment periods, making it useful for risk comparisons.

Capacity for Loss

When working to match a clients' risk preference with a suitable product or portfolio, its essential to pay close attention to capacity for loss. Even when the client's risk preference is assessed correctly, the recommended product or portfolio, and the underlying allocation of assets does not always fit.

Market Volatility

Taking market volatility into consideration is critical, to make sure that clients' portfolios are diversified, both within asset classes and across asset classes. Risk ratings on individual investments don't always reflect this.

FE fundinfo Risk Scores

FE fundinfo Risk Scores are designed to be a simple and intuitive tool enabling investors and advisers to measure the risk of an entire portfolio or its constituent elements. FE fundinfo Risk Scores define risk as a measure of volatility relative to the UK Leading 100 shares, which has a risk rating of 100, and rebased to sterling. Instruments more volatile than the UK Leading 100 shares have a score above 100 and those less volatile have a score lower than 100, giving a reliable indication of relative risk.

Wesleyan's smoothed With Profits Growth Fund has a FE fundinfo score of just 9 (as at 27 Mar 24), and historically it has been consistently low, not having exceeded 15 in the past 3 years (see page 11).

9

FE fundinfo
Risk Score

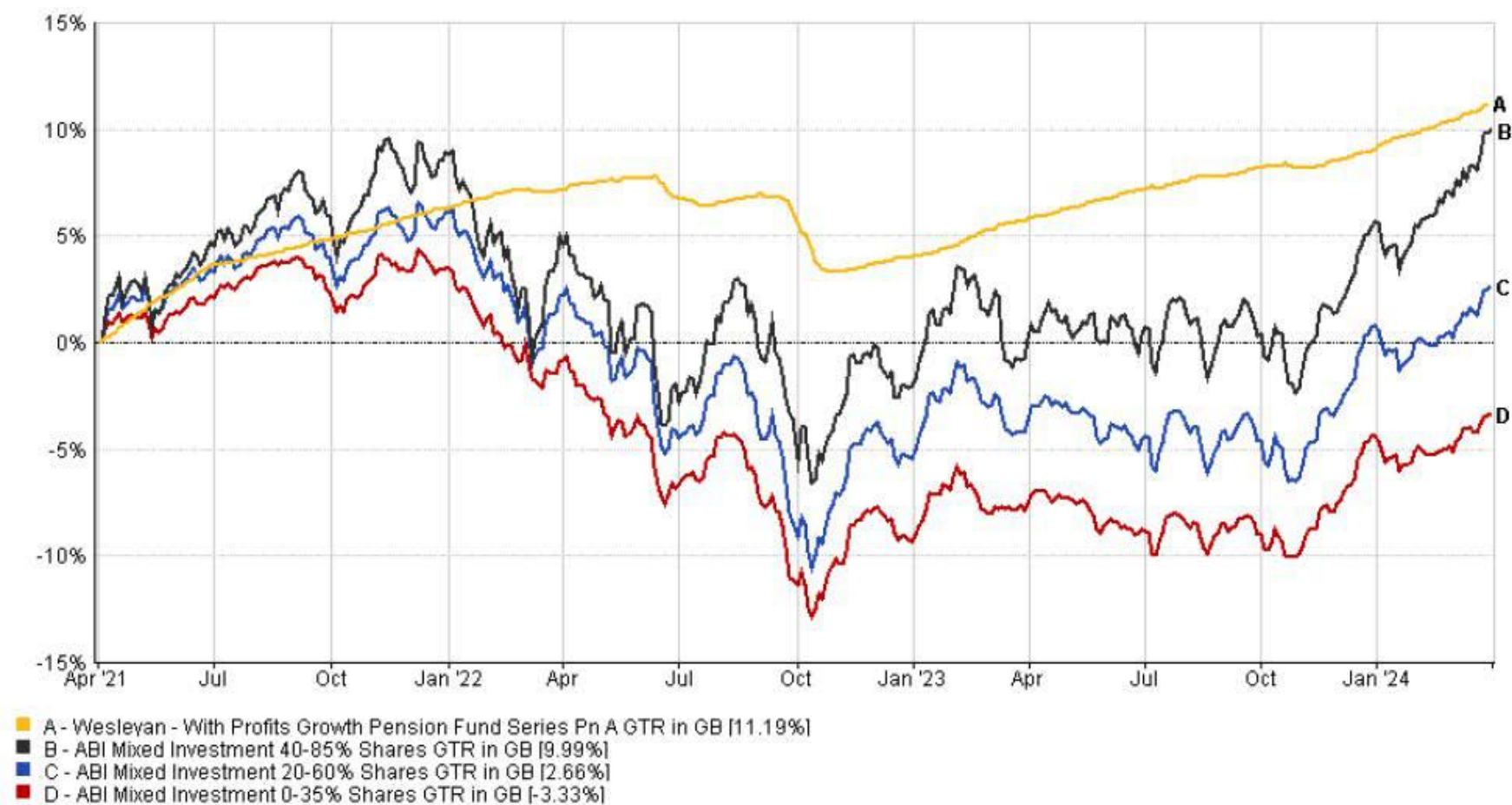


For more information about using risk ratings read our full article [here](#)

Fund Performance

Past 3 Years

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling

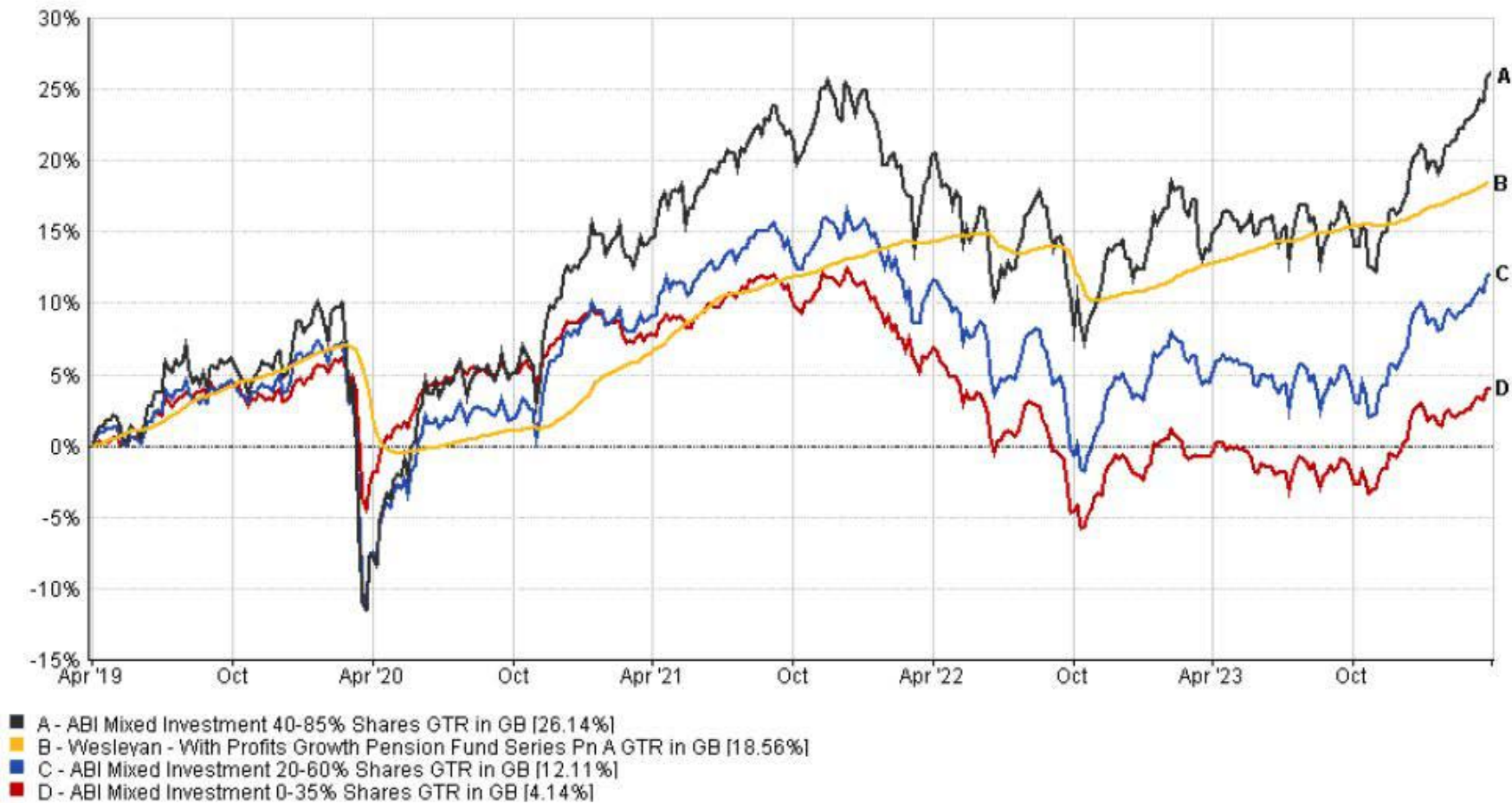


01/04/2021 - 01/04/2024 Data from FE fundinfo2024

Fund Performance

Past 5 years

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Fund Performance

Past 10 years

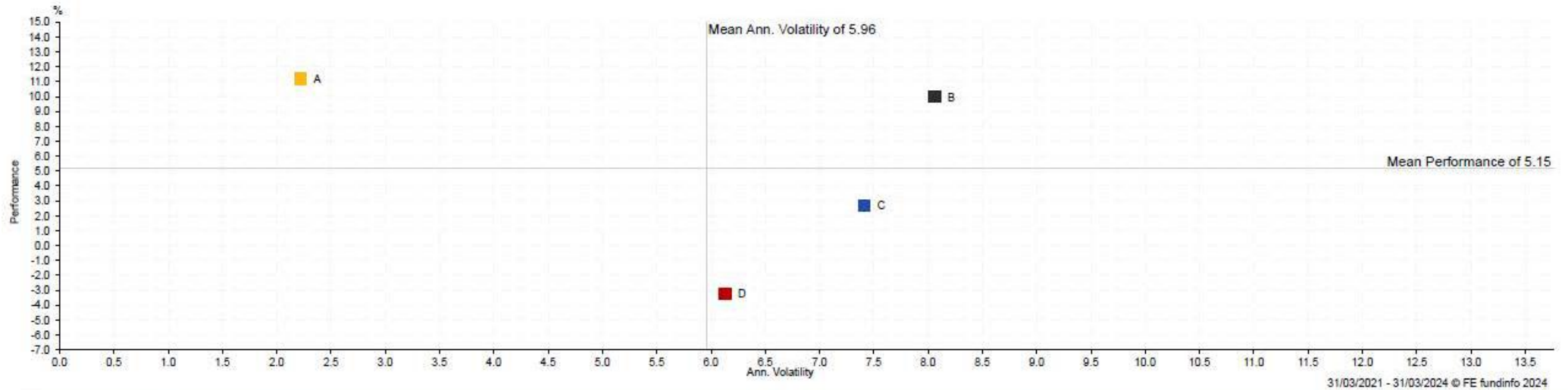
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Fund Performance and Volatility

Past 3 Years

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling

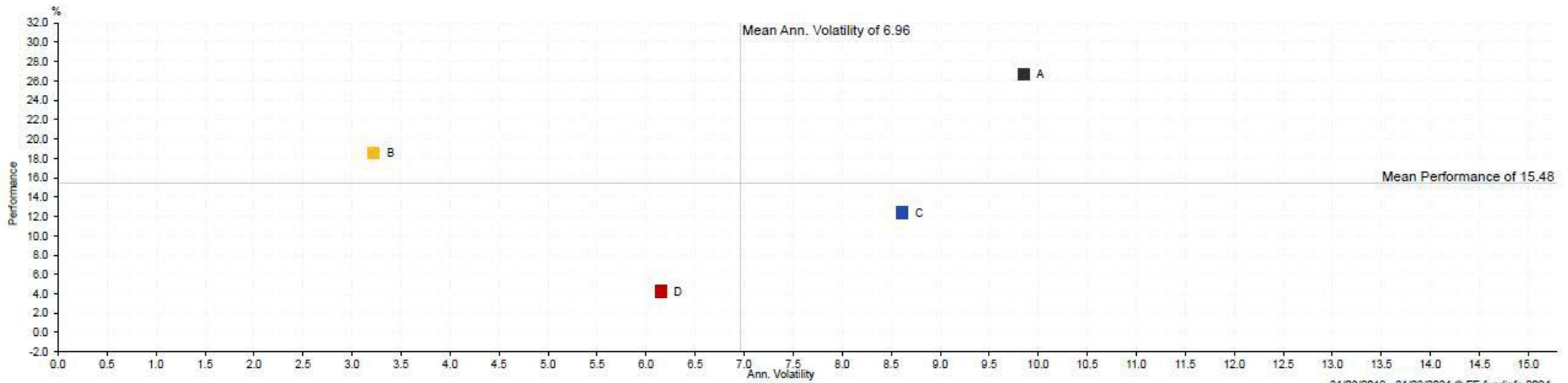


| Key | Name | Performance | Volatility |
|-----|---|-------------|------------|
| A | Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB | 11.19 | 2.22 |
| B | ABI Mixed Investment 40-85% Shares GTR in GB | 9.97 | 8.06 |
| C | ABI Mixed Investment 20-80% Shares GTR in GB | 2.71 | 7.41 |
| D | ABI Mixed Investment 0-35% Shares GTR in GB | -3.26 | 6.13 |

Fund Performance and Volatility

Past 5 years

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



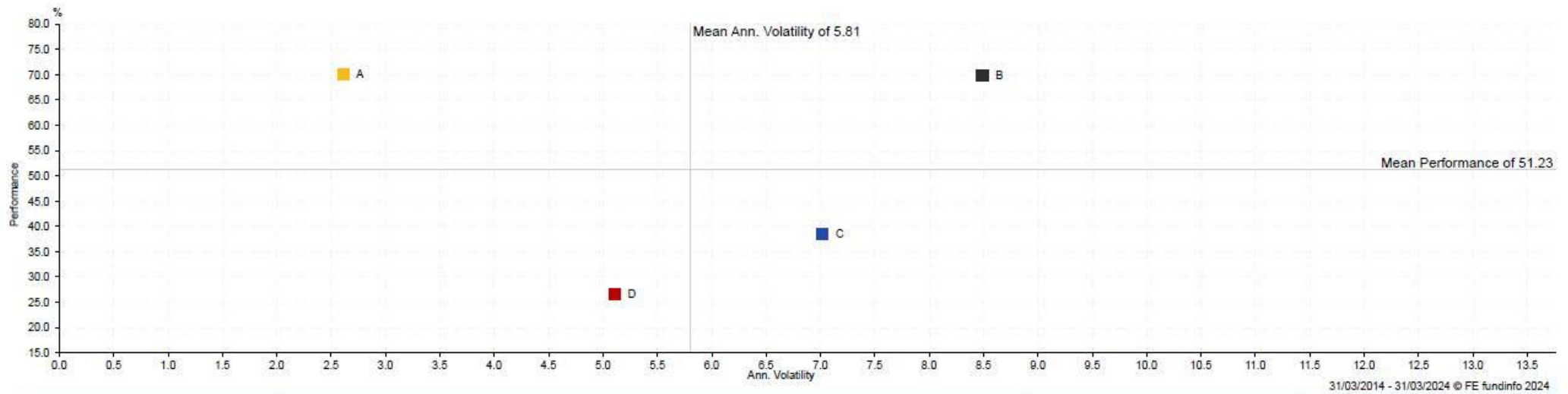
31/03/2019 - 31/03/2024 © FE fundinfo 2024

| Key | Name | Performance | Volatility |
|-----|---|-------------|------------|
| ■ A | ABI Mixed Investment 40-85% Shares GTR in GB | 26.73 | 9.85 |
| ■ B | Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB | 18.56 | 3.22 |
| ■ C | ABI Mixed Investment 20-80% Shares GTR in GB | 12.38 | 8.81 |
| ■ D | ABI Mixed Investment 0-35% Shares GTR in GB | 4.26 | 6.15 |

Fund Performance and Volatility

Past 10 years

Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling

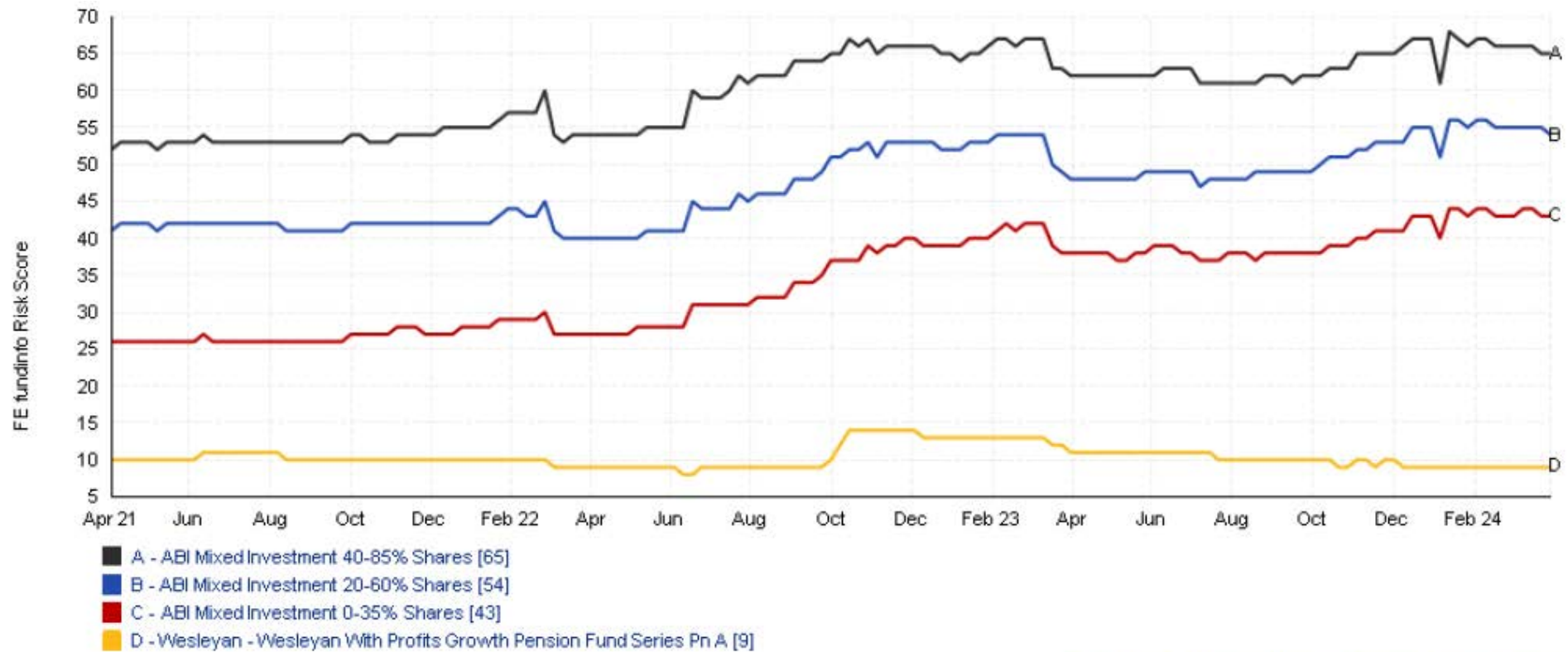


| Key | Name | Performance | Volatility |
|-----|---|-------------|------------|
| A | Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB | 70.05 | 2.61 |
| B | ABI Mixed Investment 40-85% Shares GTR in GB | 69.84 | 8.49 |
| C | ABI Mixed Investment 20-80% Shares GTR in GB | 38.50 | 7.02 |
| D | ABI Mixed Investment 0-35% Shares GTR in GB | 26.54 | 5.11 |

Historic Volatility Trend

Past 3 Years

FE fundinfo Risk Scores - Wesleyan v Benchmarks



For more information or to discuss Wesleyan's With Profits Growth Fund with one of our Regional Sales Managers please get in touch:



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