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# With Profits Growth Fund

## Quarterly Review Q2 2024

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**FS**tech  
awards 2024  
W I N N E R



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# Market Review and Outlook

# Market Review

## Markets rise amid strong earnings and easing inflation

It's been a strong quarter for stock markets, with strong company earnings and easing inflation taking leading indices to new highs. A strong global economy and anticipated rate cuts also boosted share prices, although European markets were rattled by election uncertainty.

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

### Global stock market overview

Rising geopolitical tensions in the Middle East and sticky inflation meant the period got off to an eventful start, but markets soon bounced back thanks to strong company earnings reports. Overall, it was a positive quarter, with stock markets soaring to record highs amid hopes of interest rate cuts.

The resilience of the US economy, easing inflation, strong corporate earnings, artificial intelligence momentum and confidence in the Federal Reserve (Fed) bolstered investor sentiment and propelled US share prices higher. Growth is also moving beyond the mega-cap technology companies and broadening out.

The global rally drove the UK's FTSE 100 to a new high. This surge was fuelled by better economic performance, easing inflation, and anticipated interest rate cuts. Additionally, a weaker pound boosted the FTSE 100, as stocks typically rise when sterling falls. The announcement of a snap election by Prime Minister Rishi Sunak had barely any effect on markets.

Europe's main share index reached a record high thanks to strong earnings growth and lower-than-expected US inflation data.

However, European equities dipped lower due to uncertainty caused by French President Emmanuel Macron announcing a snap election but rebounded towards the end of the period as investor concern over French political woes eased. The Asian market also saw gains, with Chinese stocks rallying after new measures were announced to revive the struggling property market.

US government bonds rallied at the beginning of May (when bond prices rise, yields fall) amid signs that inflation in the world's largest economy is slowing, as well as speculation about the timing and extent of interest rate cuts by major central banks.

UK Gilts also initially rallied at the beginning of May before reversing those gains later in the month. Government bond yields also touched fresh year-to-date highs in parts of Europe amid sticky inflation data.

### Central banks diverge

US inflation has not fallen back as quickly as expected, due to the strength of the economy. As a result, hopes of substantial cuts in interest rates faded towards the end of the quarter. Inflation rose to 3.4% in the 12 months to April, before dipping to 3.3% in May, still well above the Fed's 2% target.

With inflation coming in ahead of expectations for much of the year, the Fed has held interest rates at a two-decade high between 5.25% and 5.5%. Markets are now expecting the US central bank to cut rates just once this year, possibly in September. As recently as March, policymakers expected the Fed to cut rates three times this year.

With inflation easing across the world, we are now starting to see major central banks diverge from the Fed. In June, the European Central Bank (ECB) cut rates for the first time in five years, citing its progress in fighting inflation which is nearing its 2% target. Canada's central bank also cut its benchmark rate, while policymakers in Sweden and Switzerland recently started easing policy.

While UK inflation has dropped to the Bank of England's 2% target for the first in nearly three years, the central bank decided to leave interest rates unchanged at the 16-year high of 5.25%. However, there are some areas of inflation that remain high. Experts have noted that services inflation – an indicator watched closely by the Bank – remains above expectations at 5.7%.

## **US growth slows**

While the US economy is showing signs of slowing, it continues to perform well compared with its rivals. The American economy expanded at a 1.4% annual pace in the first three months, the slowest quarterly growth since spring 2022. US consumer spending is also losing momentum with retail sales unexpectedly flat in April. The jobs market continues to defy predictions of a slowdown, with strong jobs growth, while unemployment remains low.

The UK exited the recession it fell into at the end of last year faster than expected. The economy grew by 0.7% in the first quarter of this year – the fastest quarterly pace of growth since 2021. Workers received a cost-of-living boost as wages rose faster than inflation. However, the job market appears to be cooling, with the unemployment rate increasing from 3.8% to 4.3% between January and March.

China is still struggling with the collapse of its real estate market and weak consumer confidence. The country's exports and

imports returned to growth in April, suggesting global demand is strengthening. However, the US slapped new tariffs on Chinese electric vehicles (EVs), advanced batteries, solar cells and other imports, ratcheting up the trade war.

At the start of the year, the euro area emerged from recession, driven by better-than-expected performances in Germany, France, Italy, and Spain. The region's GDP grew by 0.3% in the first quarter, marking the strongest growth since the third quarter of 2022. Unemployment fell to a record low of 6.4% in April, indicating higher interest rates haven't negatively impacted the job market.

# Market Outlook

## What this means for Wesleyan: our funds view and outlook

With stock markets continuing to move higher in the second quarter, and bond markets once again trailing behind, this has widened the performance gap between the two main asset classes in our funds. Those of our funds with more invested in global stock markets have therefore enjoyed a better year (so far) than those which contain a higher mix of bonds.

UK shares had been left behind by other markets in the first quarter, but it was good news for our funds that they caught up with the performance of other markets during April and May. The UK stock market started notching up its own 'record highs' by mid-May and we used this welcomed period of strength to trim some of our UK holdings as part of our longer-term strategy to diversify our share portfolios more globally. As UK share prices fell back towards the end of the quarter, our selling activity was temporarily paused.

Some of the proceeds from those UK share sales were reinvested into overseas stock markets (mainly developed markets like Europe and the US), whilst some of the cash was instead diverted into bond markets – particularly UK government bonds – as we looked to 'lock-in' to the better returns (or "yields") that are still available – thanks partly to the Bank of England holding interest rates at 5.25% as it continues its quest to bring inflation back under full control (and keep it that way).

Talking of which, it was pleasing to see May's figures on inflation back to 2%, and despite the potential for it to modestly rise again later this year, we view fixed income returns (from bond markets) as much more attractive compared to the returns on offer just three

years ago – which will potentially benefit our lower risk funds and moderate risk funds in the years ahead.

Despite the UK economy emerging from its own 'mild' winter recession - and fears of deep global recessions proving unfounded - we made fewer purchases of corporate bonds (company debt) due to the extra returns, compared to government bonds, not being sufficiently attractive. These "tight spreads" meant that the small handful of corporate bonds we did buy were all shorter-term investments by our normal standards - with all of them scheduled to mature (return our money) within the next five years.

Looking more longer-term, we are continuing to buy commercial property this year, in anticipation that the market will steadily improve in the years ahead. The current rental income we will receive in the meantime is suitably attractive. Transactions take time in the property world, but we are delighted to have completed four acquisitions for our With Profits Fund in the second quarter - two industrial units and two supermarkets. You can also read about how in May, we have opened doors for the NHS with a property we own in Stoke-on-Trent - currently being renovated into a new state-of-the-art NHS healthcare facility by our new tenant.

Find out all about it here <https://www.wesleyan.co.uk/intermediaries/blog>

# 3 Year Anniversary of With Profits Growth Fund on Platform

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# A Smoothed With Profits Fund with a Difference

3 years ago Wesleyan made its smoothed With Profits Growth Fund available to Intermediaries – an innovative fund specifically designed to sit on platforms.

Wesleyan has a strong track record of managing a With Profits fund spanning back over the past century. 3 years ago, we set out to make our mark in the modern adviser world. We achieved an industry first by bringing our flagship With Profits Fund to independent platforms through technical innovation, creating a unique smoothing mechanism that enables the fund to operate in a similar way to other platform funds.

## Key reasons to consider this smoothed With Profits fund for clients...





# 3 Years, 3 Platforms

## Available on multiple platforms

Our With Profits Growth Fund is easy to access as a stand-alone investment or as part of a blended portfolio. It is flexible enough to be platform agnostic and as such is available on 3 independent platforms; abrdn Wrap, Nucleus Wrap and Wealthtime, with more due to follow.



## Award-winning

Earlier this year, the proposition was awarded 'Financial Sector Innovation of the Year' at the FStech Awards. This recognised the uniqueness of bringing a smoothed With Profits Growth Fund to independent adviser platforms: the first multi-platform smoothed investment solution in the market.

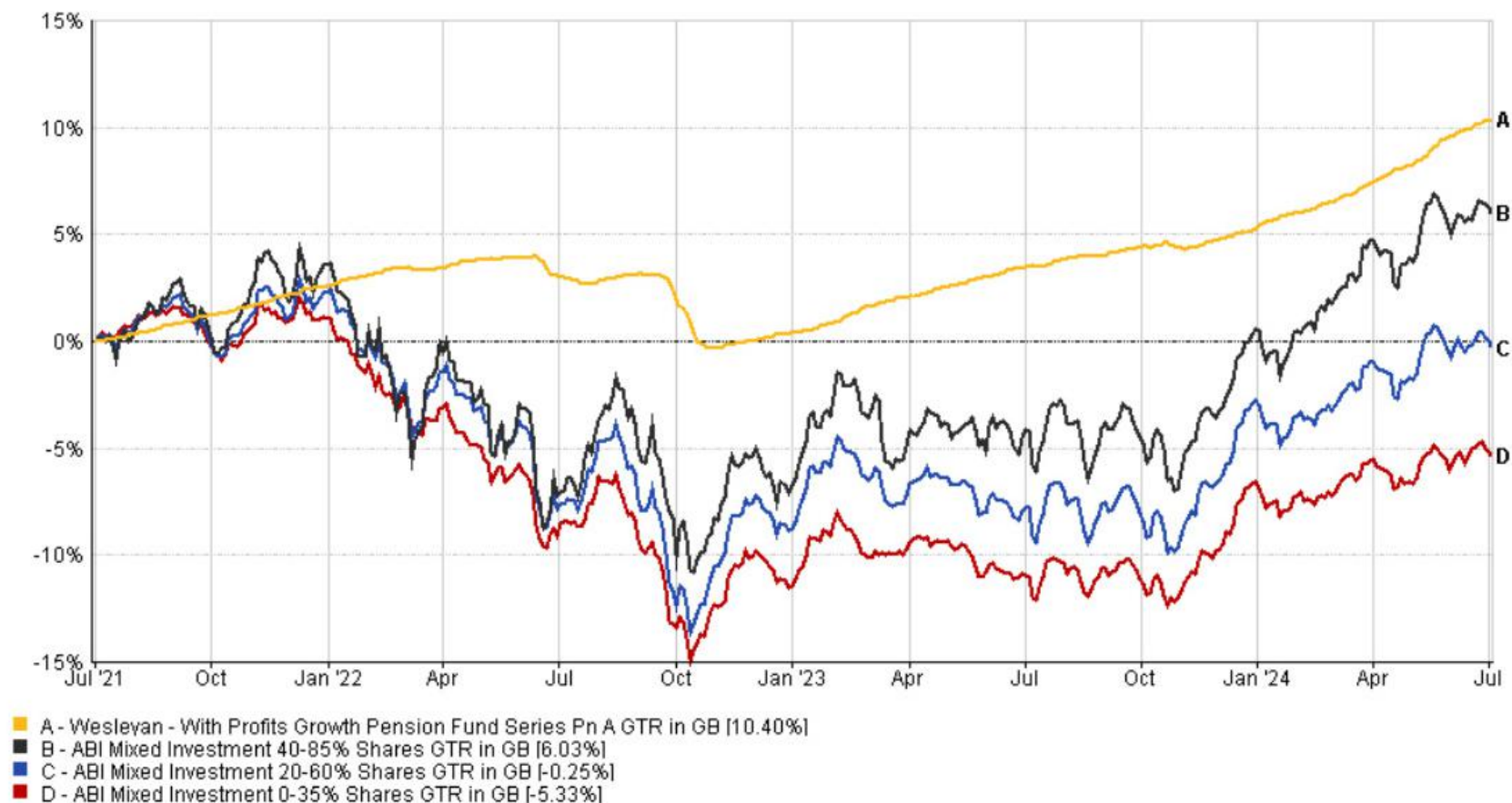
# Fund Performance

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# Returns Performance - Past 3 Years

The chart below shows the performance of the With Profits Growth Fund since it launched 3 years ago. Over this period, it has performed in line with its sector benchmarks, and the impact of the smoothing mechanism protecting investors from day-to-day market volatility is clearly evident.

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



02/07/2021 - 02/07/2024 Data from FE fundinfo2024

# Returns Performance - Past 5 Years

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



02/07/2019 - 02/07/2024 Data from FE fundinfo2024

# Returns Performance - Past 10 Years

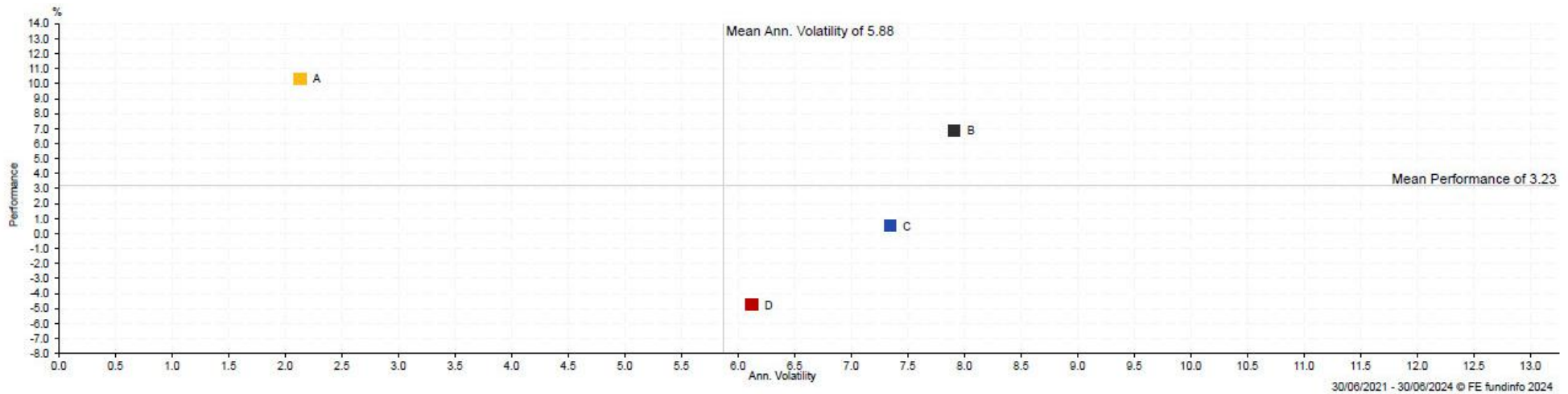
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



02/07/2014 - 02/07/2024 Data from FE fundinfo2024

# Returns v. Volatility Performance - Past 3 Years

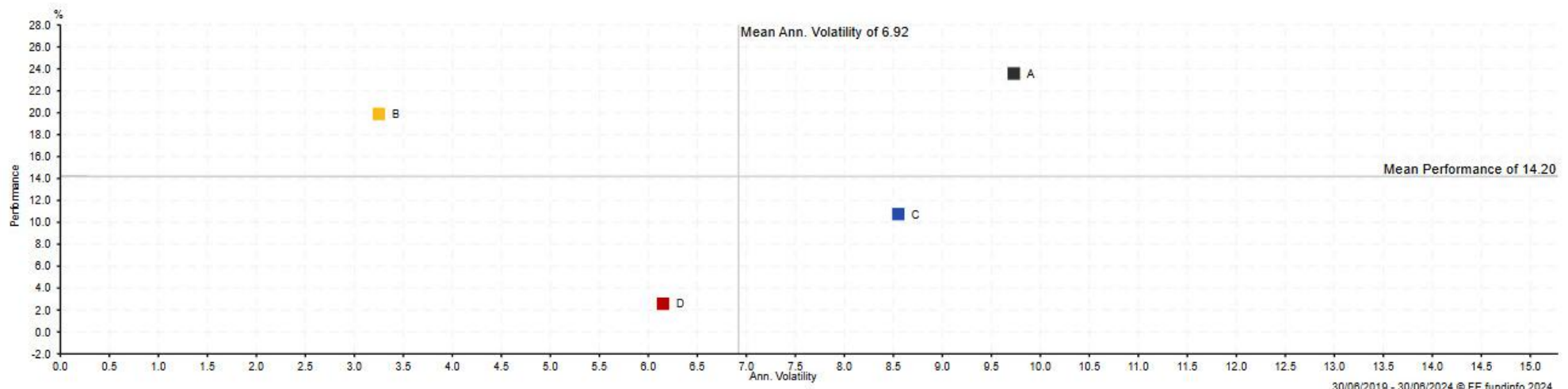
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Key	Name	Performance	Volatility
A	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	10.30	2.13
B	ABI Mixed Investment 40-85% Shares GTR in GB	6.87	7.91
C	ABI Mixed Investment 20-80% Shares GTR in GB	0.50	7.34
D	ABI Mixed Investment 0-35% Shares GTR in GB	-4.76	6.12

# Returns v. Volatility Performance - Past 5 Years

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



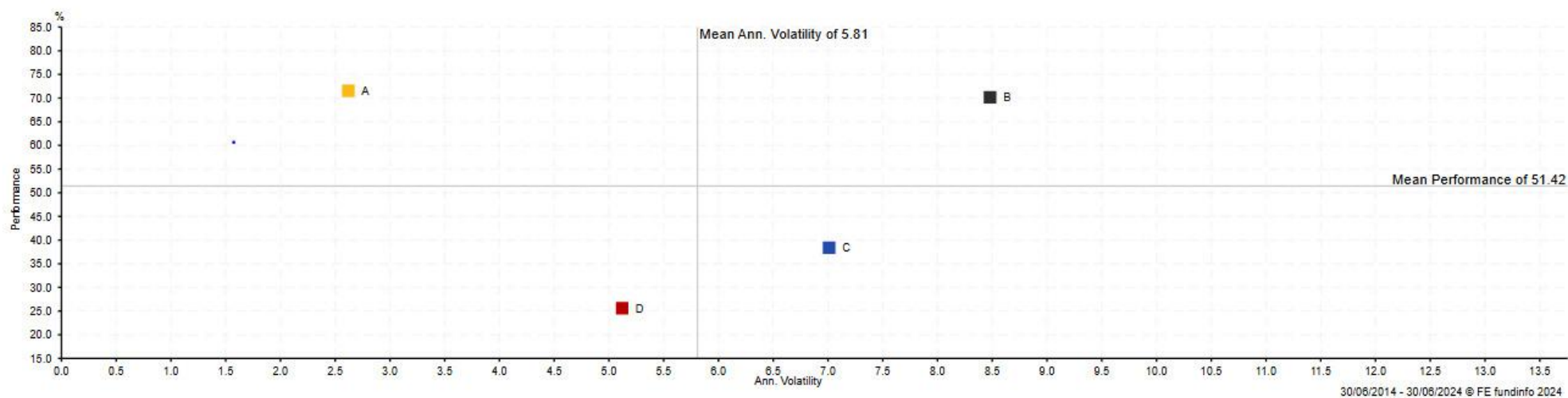
30/06/2019 - 30/06/2024 © FE fundinfo 2024

Key	Name	Performance	Volatility
■ A	ABI Mixed Investment 40-85% Shares GTR in GB	23.57	9.73
■ B	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	19.89	3.25
■ C	ABI Mixed Investment 20-80% Shares GTR in GB	10.75	8.55
■ D	ABI Mixed Investment 0-35% Shares GTR in GB	2.57	6.15



# Returns v. Volatility Performance - Past 10 Years

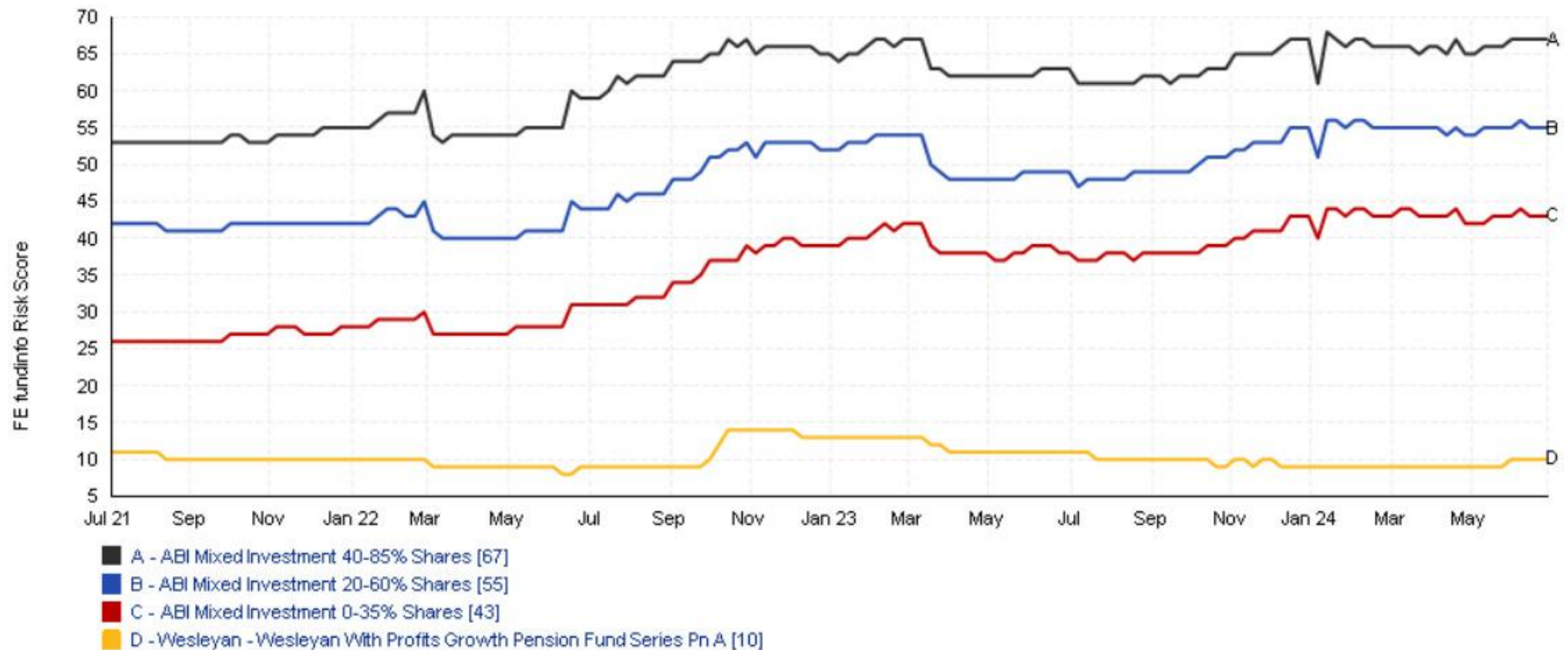
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Key	Name	Performance	Volatility
A	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	71.54	2.82
B	ABI Mixed Investment 40-85% Shares GTR in GB	70.16	8.48
C	ABI Mixed Investment 20-80% Shares GTR in GB	38.39	7.01
D	ABI Mixed Investment 0-35% Shares GTR in GB	25.80	5.12

# Historic Volatility Trend

The With Profits Growth Fund currently has an FE fundinfo score of 10 and it hasn't been above 14 in the last 3 years. This is significantly lower than the sector benchmark FE fundinfo scores, which can be seen on the chart below.



02/07/2021 - 28/06/2024 Powered by data from FE fundinfo

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



[www.wesleyan.co.uk/intermediaries](http://www.wesleyan.co.uk/intermediaries)



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