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With Profits Growth Fund

Quarterly Review Q3 2024

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Contents

Market Review and Outlook	3-6
Spotlight on... Market Drops and Smoothing	7-9
Fund Performance	10-17

Market Review and Outlook

Market Review and Outlook

Markets recover amid central bank rate cuts

Despite some volatility, global markets recovered to reach record highs towards the end of the quarter. The global economy remains resilient and with inflation slowing, central banks have begun cutting rates, helping to boost markets further.

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

Global stock market overview

Global markets fell from record highs at the end of July after investors rotated away from large tech stocks. With investors growing more cautious about artificial intelligence (AI), there was some movement away from the tech giants to smaller companies in anticipation of US Federal Reserve (Fed) cuts.

With inflation cooling faster than expected, some investors shifted their money into smaller stocks on the expectation that the Fed could soon cut interest rates. This is because smaller companies tend to do well when rates are low because they typically rely more on borrowing to finance their growth.

While President Joe Biden dropped out of the 2024 presidential election and endorsed Vice President Kamala Harris, this had little overall impact on markets. This was largely because Harris is seen as the continuity candidate.

There was further volatility at the beginning of August over fears of a US recession, rising Japanese interest rates, and falling tech stocks led to a meltdown. The stock market turmoil began after new figures showed rising US unemployment, sparking fears of recession.

Japan's Nikkei index suffered its worst day since Black Monday in 1987, dropping more than 12% before recovering its losses. The sharp drop in Japanese equities was partly due to the yen's appreciation against the dollar following the Bank of Japan's interest rate hike. US and European indexes also saw huge losses, but markets soon recovered after new US data calmed worries of a possible downturn.

Global markets welcomed the Fed's decision to cut interest rates towards the end of the quarter, with US stocks soaring to record highs. Chinese stocks also surged after the Chinese government rolled out new stimulus measures to lift its economy.

In anticipation of a change in central banks cutting rates, we have seen a shift in government bond yields on both sides of the Atlantic. 10-year US Treasury bonds dropped below 4% in August for the first time since 2024's opening week. It was also a similar story for UK government bonds, with yields dipping below 4% in August and staying until the end of the quarter.

Central banks shift their focus

Central banks are now shifting their focus away from controlling inflation to safeguarding economies and fostering growth.

With US inflation falling and the economy cooling, the Fed decided to cut interest rates by half a percentage point in September, for the first time since March 2020. US inflation dipped below 3% for the first time since 2021 in July, with price rises going up by 2.9%, down from 3% in June. There was further good news for consumers when inflation fell to 2.5% in August.

The Bank of England cut interest rates from 5.25% to 5% in August for the first time in four years. The drop in borrowing costs is good news for homeowners and came after inflation held at 2% for a second consecutive month in June. The Bank hit a setback after inflation rose for the first time this year in July. Prices went up by 2.2% in the year to July – slightly above the Bank of England’s 2% target - and remained there in August.

The European Central Bank (ECB) lowered the deposit rate in September by a quarter of a percentage point to 3.50% after inflation fell to 2.2% in August. However, the ECB’s economists expect inflation to pick up towards the end of the year, before falling in 2025 and 2026.

Global economic conditions

After a period of high borrowing costs, solid growth, fading inflation and healthy employment, the US economy appears to be heading towards a soft landing – where the economy slows without a recession. Layoffs remain low, and a rapid rise in the unemployment rate has slowed. Strong US retail sales data has also boosted hopes the US economy will avoid recession.

The UK post-election economic bounce back failed to materialise, with the economy flatlining for the second month in a row during July. The good news is that UK jobs data is looking brighter, with unemployment falling, although pay growth has eased. UK retail sales picked up in July, helped by summer spending on sports equipment.

The Chinese government unveiled measures to boost the country’s ailing economy with new stimulus measures. China’s economy continues to be weighed down by the property slump, low

consumer spending, and unemployment. Industrial production rose by 4.5% in August compared with a year ago, down from July’s 5.1% growth. Investment in real estate has fallen, despite attempts by the government to revive the sector. Retail sales growth is also slowing, while youth unemployment has risen above 17%.

The euro area economy saw a 0.3% increase in the second quarter, matching the growth rate from the first quarter. Despite this steady overall performance, Germany’s industrial sector continues to struggle. Wage growth – closely monitored by the ECB – slowed during the second quarter, easing fears labour costs could spark an inflation rise. On the employment front, the labour market remains strong, with the unemployment rate slightly declining to 6.4% in July, down from 6.5% in June.

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 BofE 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...
Market Drops and Smoothing

Spotlight on... Market Drops and Smoothing

August was a particularly interesting month for markets.

- ▶ The Bank of England faced a setback in August after inflation rose by 2.2% - the first rise of the year.
- ▶ Global markets stumbled at the beginning of the month due to recession fears, but positive data eased concerns.
- ▶ The FTSE 100 had its worst trading day in over a year, after US jobs data sparked a global stock market sell-off, recovering a month later.

What did this mean for investors?

Across the market, clients investments experienced a rocky ride during August, as can be seen in the chart below.

However, clients' who were invested in Wesleyan's With Profits Growth Fund would have noticed a much less volatile journey over this period, as the gold line shows. This is where the power of our unique smoothing mechanism comes into play, as it responsively helps to protect investors from the day to day short term market falls.

A similar effect can be seen if we look back to 2020, a particularly volatile year due to the COVID pandemic. Wesleyan's smoothing formula ensured less of a performance drop and it responded more quickly to the subsequent recovery, smoothing in the positive returns straight away.

Q3 2024 - Wesleyan v Sector Benchmark Performance



A - ABI Mixed Investment 40-85% Shares GTR in GB [2.65%]
B - Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB [2.55%]

31/05/2024 - 30/09/2024 Data from FE fundinfo2024

2020 - Wesleyan v Sector Benchmark Performance



A - ABI Mixed Investment 40-85% Shares GTR in GB [-3.78%]
B - Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB [-5.73%]

01/01/2020 - 30/06/2020 Data from FE fundinfo2024

Read on to understand more about Wesleyan's unique smoothing approach.

Spotlight on... Market Drops and Smoothing

Our unique smoothing mechanism means it works in line with the market, aligned to the rises and falls.

- ▶ The fund is an actively managed diversified fund invested in a wide range of asset classes, determining the underlying performance
- ▶ Returns are then smoothed to help mitigate day-to-day market volatility
- ▶ The fund is smoothed daily, enabling it to be priced daily and traded daily.
- ▶ There is no requirement for unit price adjustments (UPAs) or market value reductions (MVRs) due to the daily smoothing.

This smoothing journey makes the fund ideal for managing volatility drag and reducing sequence of return risk and therefore a great option to combine into portfolios for clients who are approaching or in retirement. The fund is easily accessible for advisers via independent platforms; abrdn Wrap, Nucleus Wrap and Wealthtime.

How is volatility measured?

FE fundinfo Risk Scores are a useful indicator of a fund's volatility. Wesleyan's With Profits Growth Fund is measured as having consistently low volatility, with an FE fundinfo Risk Score of 9 (as at 30 September 2024) and the score hasn't exceeded 14 in the past 3 years. This is considerably lower than the Risk Scores of the fund's sector benchmarks which are typically in the region of 25 to 65. See page 17 for a view of the historic volatility trend v sector benchmarks.

How is Wesleyan set up to deliver this?

Wesleyan is a financially strong mutual without shareholders, meaning we can focus on the needs of our investors. Our financial strength is evidenced in our solvency ratio. At 322%* (as reported in our Reporting Accounts 2023 and independently audited by Ernst & Young), this solvency ratio means we have enough capital to meet our investors needs, even in the most severe of circumstances.

*This amount is based on our published solvency position shown in our annual Solvency and Financial Condition Report, available at www.wesleyan.co.uk/about/corporate-governance



"When setting up our smoothing formula, we worked to two key principles; when the markets were benign we wanted the unit price to grow at a steady rate. When markets were more volatile we wanted to smooth more quickly."

Gemma Harris,
Lead Product Pricing Actuary at Wesleyan

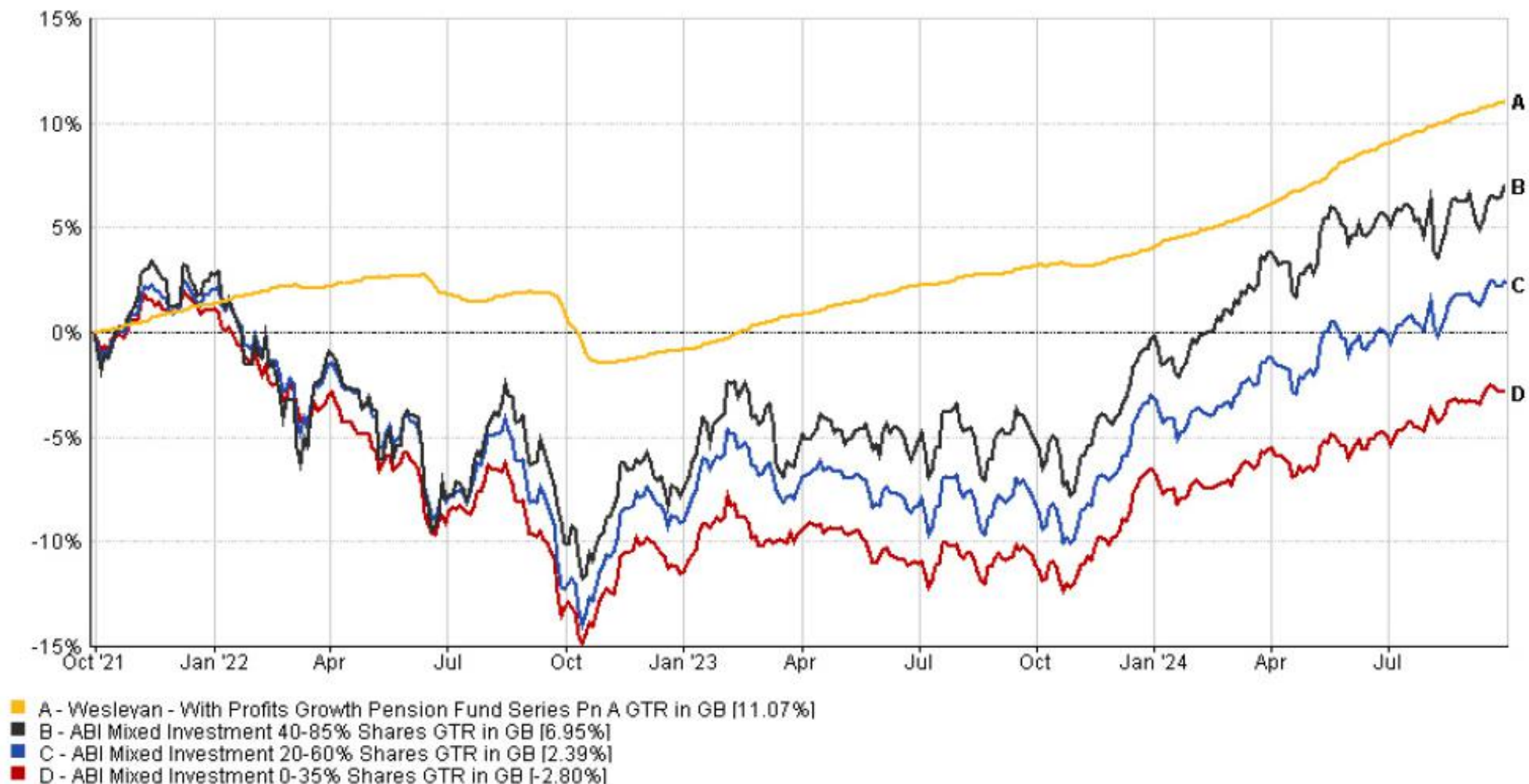


Fund Performance

WESLEYAN
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Returns Performance - Past 3 Years

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



30/09/2021 - 30/09/2024 Data from FE fundinfo2024

Returns Performance - Past 5 Years

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



30/09/2019 - 30/09/2024 Data from FE fundinfo2024

Returns Performance - Past 10 Years

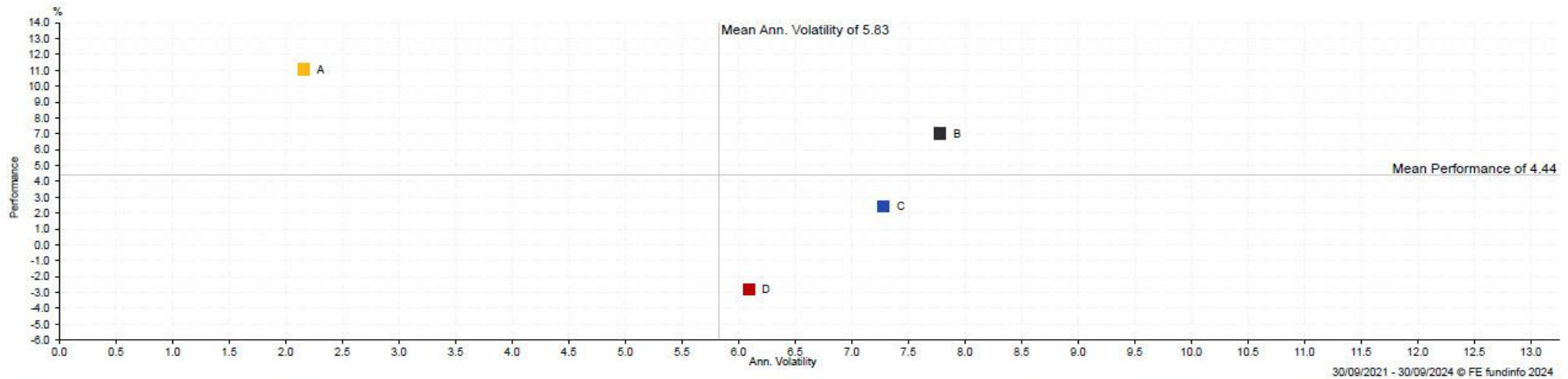
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



30/09/2014 - 30/09/2024 Data from FE fundinfo2024

Returns v. Volatility Performance - Past 3 Years

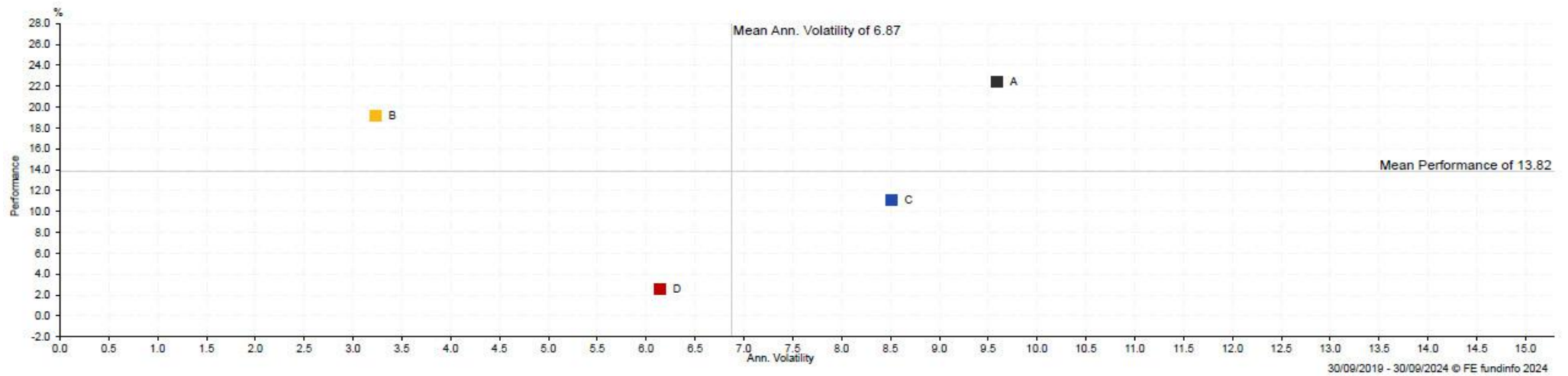
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Key	Name	Performance	Volatility
A	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	11.07	2.16
B	ABI Mixed Investment 40-85% Shares GTR in GB	7.03	7.78
C	ABI Mixed Investment 20-80% Shares GTR in GB	2.44	7.28
D	ABI Mixed Investment 0-35% Shares GTR in GB	-2.80	6.09

Returns v. Volatility Performance - Past 5 Years

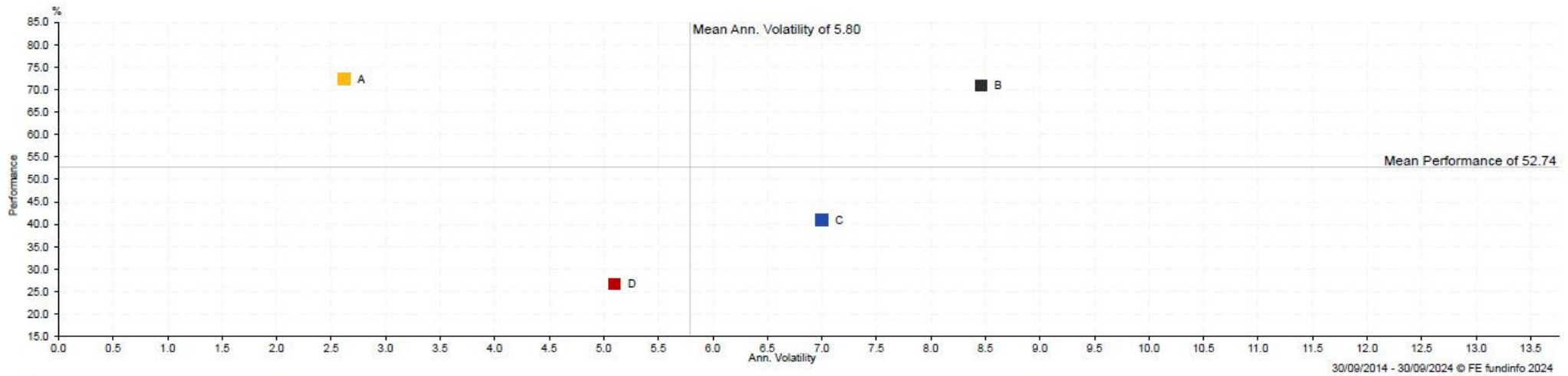
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Key	Name	Performance	Volatility
■ A	ABI Mixed Investment 40-85% Shares GTR in GB	22.40	9.59
■ B	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	19.19	3.23
■ C	ABI Mixed Investment 20-80% Shares GTR in GB	11.13	8.51
■ D	ABI Mixed Investment 0-35% Shares GTR in GB	2.55	6.14

Returns v. Volatility Performance - Past 10 Years

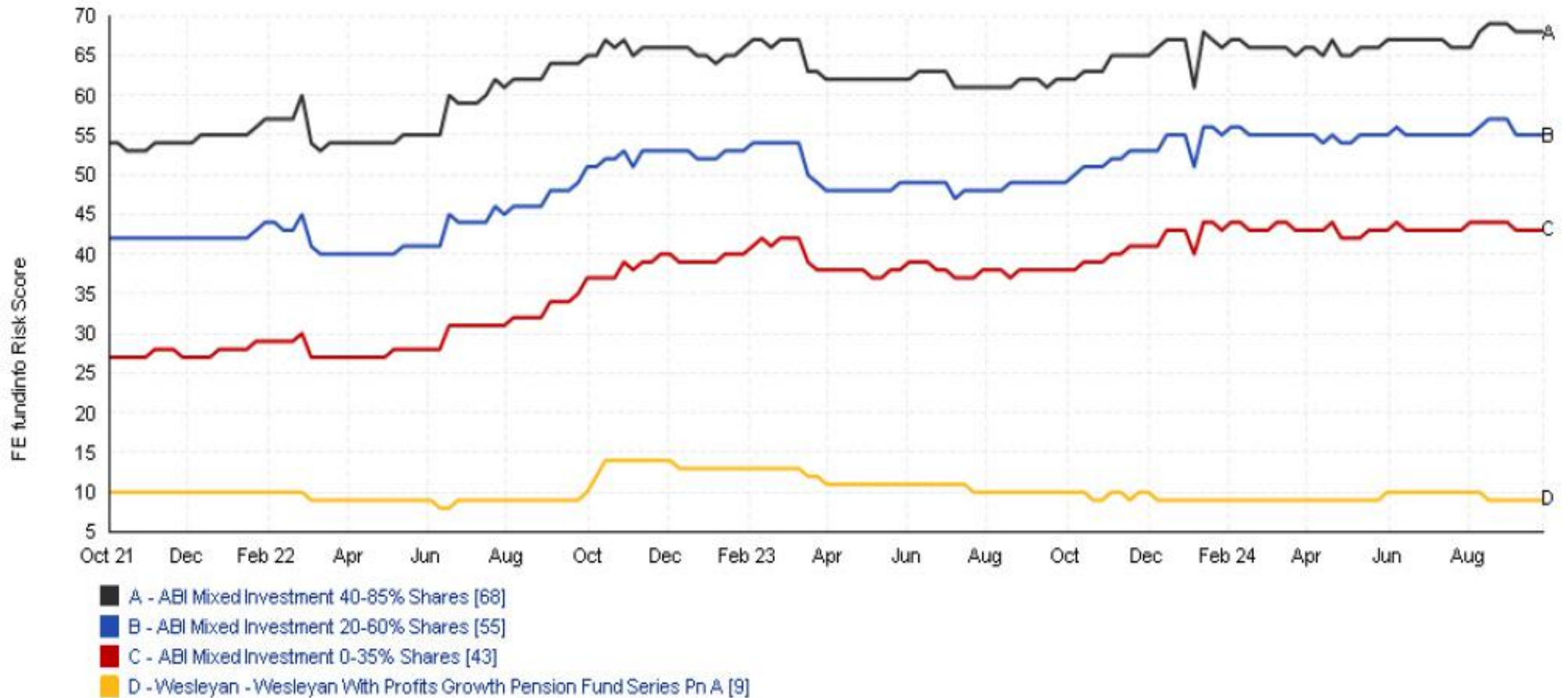
Pricing Spread: Bid-Bid • Data Frequency: Daily • Currency: Pounds Sterling



Key	Name	Performance	Volatility
A	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	72.39	2.82
B	ABI Mixed Investment 40-85% Shares GTR in GB	70.94	8.46
C	ABI Mixed Investment 20-60% Shares GTR in GB	40.96	7.00
D	ABI Mixed Investment 0-35% Shares GTR in GB	26.68	5.10

Historic Volatility Trend

FE fundinfo Risk Scores - Wesleyan v Benchmarks



01/10/2021 - 27/09/2024 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:



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