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With Profits Growth Fund

Quarterly Review Q4 2023

WESLEYAN

we are all about you



Market Review and Outlook

Amid worries about inflation and interest rates, it's been a challenging time for markets. However, after stocks and bonds rallied in November, the year ended strongly, bringing some early Christmas cheer for investors.

In this update, we reflect on the investment environment and explore the quarter's key events – as well as bring our usual funds view and outlook from our investments team.

Global stock markets rally

Share prices around the world tumbled in October after owing to concerns about interest rates staying higher for longer. Notably, markets lost ground after US Federal Reserve (Fed) Chair Jerome Powell signalled there was no immediate prospect of interest rate reductions. As the world's largest economy, as well as being home to the largest stock and bond markets by value, what happens in the US has consequences for the investment environment around the world.

Conflict in the Middle East added to the uncertainty for investors, although the impact on markets was short lived. Global stock markets gained steam in November following news that annual inflation had slowed, raising hopes that the Fed has probably finished increasing interest rates.

This surge continued into December, with US stocks hitting a new high for the year after strong survey data signalled a resilient economy and inflation continued to cool. This raised hopes of a so-called soft-landing for the US economy, where recession is avoided. UK equities were also lifted by a sharper than expected fall in inflation, but lagged the global rally.

Recent growth has been driven most notably by the technology sector, which has been boosted in part thanks to investor enthusiasm surrounding artificial intelligence. Improving profit margins among US companies supported a higher-than-expected earnings season, with big tech companies posting strong sales results compared to last year.

European markets also performed well, driven by gains in healthcare stocks and strong earnings reports. However, it was another disappointing quarter for Chinese stocks as the sluggish economic recovery continued to weigh on investors.

At Wesleyan Assurance Society, many of our portfolios provide diversified exposure to investments from different global regions and industry sectors. As a result, what happens around the world can influence performance, as well as the outlook for returns.

Bonds bounce back

Over the past year there has been a sell-off of global government bonds, which is having wider ramifications. October witnessed a surge in long-term bonds yields (meaning prices fell) driven by tighter central bank monetary policy and an unexpectedly resilient US economy.

Long- and short-term US Treasury yields reached highs not seen since the financial crisis. Yields on long-term UK government bonds also headed above 5% in response to expectations of global interest rates remaining higher for longer than expected.

There was a huge turnaround in November with bond markets rallying in the belief that big central banks had finished hiking rates after inflation started to fall. There were also further gains for bonds in December after the Fed signalled it could cut interest rates in 2024.

Interest rates on hold

After a lengthy battle for central banks, inflation is finally coming down, but consumers are feeling the sting of higher prices. US price rises slowed further in November, with inflation edging marginally lower to 3.1%. However, core inflation – which strips out food and energy – remains stubbornly high at 4%.

The Fed opted to hold interest rates for the third meeting in a row in December at 5.25% to 5.5%. Things are also looking brighter for America's economy. Growth is strong and unemployment remains below 4%.

There was some relief for Europeans in November with inflation falling to 2.4% – the lowest in two years. Despite falling inflation, the European Central Bank (ECB) opted to keep interest rates unchanged at 4% in December.

In the UK, inflation rate dropped sharply in October to 4.6%, down from 6.7% the previous month – its lowest level in two years. There was a further fall in November, with inflation dropping more than expected to 3.9%.

The Bank of England left interest rates unchanged at 5.25% for a third time in a row in December – the highest since the financial crisis. In contrast to the Fed, policymakers refused to speculate on when they will come down.

With inflation now falling on both sides of the Atlantic, most analysts now agree that interest rates have peaked. The big question is when they will come down? Eventual rate cuts will depend on how quickly inflation falls as well as what happens with wage growth and unemployment.

The Fed has pencilled in three rate cuts for 2024, assuming inflation drops further. However, with inflation proving to be stickier in the UK, analysts expect the Bank of England to cut rates at a slower pace than the US central bank.

What does this mean for Wesleyan, our funds' view and outlook?

In the final few months of 2023, stock and bond markets were on the up, and this gives us fresh optimism that in 2024 we will continue to see a return to normality. There is an air of renewed hope among investors that interest rate cuts may be on the horizon now we are seeing consistently lower inflation figures coming through.

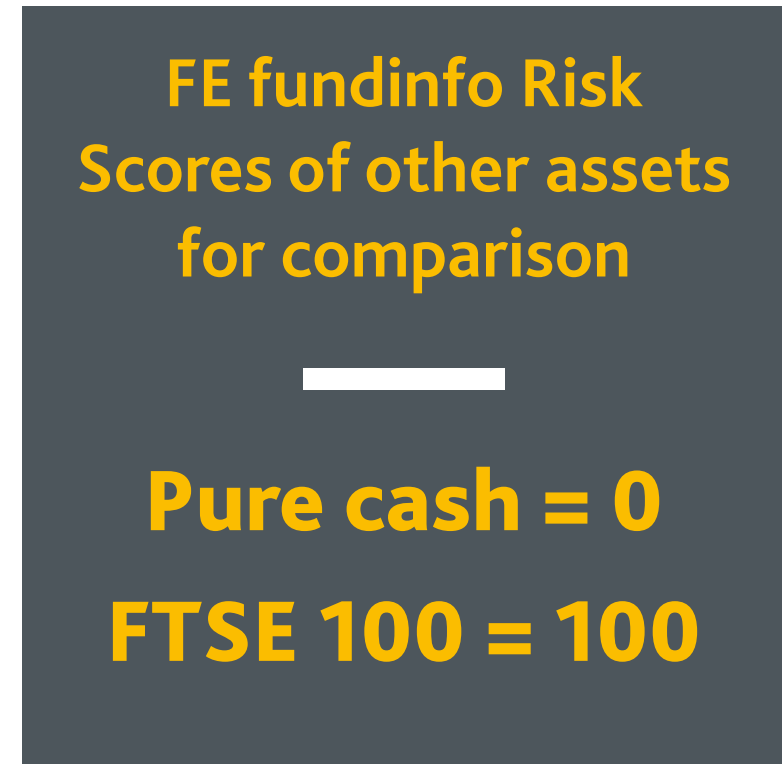
During the market turbulence of the past 16 months, and as interest rates moved higher, we were busy buying longer-dated UK government bonds at lower prices – safely tucking them away to bolster future returns. With stock markets in buoyant mood, and fixed income assets (bonds) on a firmer footing, our focus has changed tack.

Boosted by the 'feel good' factor in financial markets, we see an opportunity to diversify our portfolios. We continue to trim some of our longer-held UK shares and, looking further afield, we aim to increase our exposure to global investments as opportunities arise in 2024.

As we have done in previous years, we are always looking for opportunities to add to our commercial property portfolio (which makes up just under 10% of our With Profits Fund). Property returns may have stalled in 2023, but a new year brings new prospects to further enhance our existing portfolio. In the meantime, much of the return will likely continue to come in the form of rental income, with capital growth coming later.

Spotlight on... Volatility

The Wesleyan With Profits Growth Fund helps to mitigate market volatility with its smoothing mechanism, and has a very low risk score, as rated by FE fundinfo.

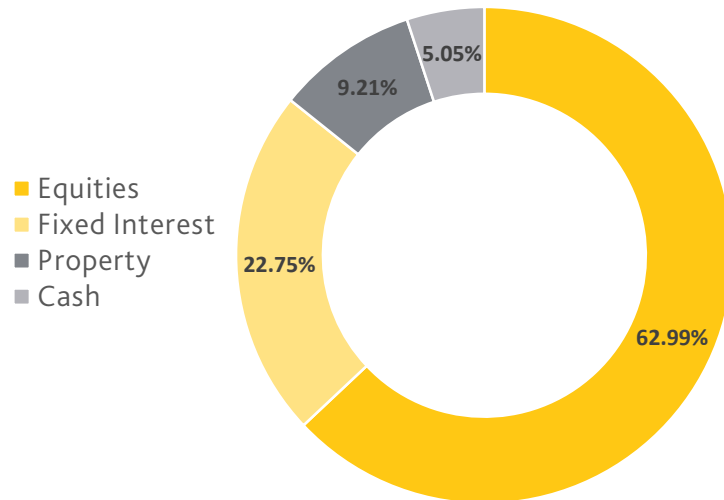


The chart on the next page shows how Wesleyan's With Profits Growth Fund has maintained a relatively low FE fundinfo Risk score over time, against the comparison to its benchmarks.

Spotlight on... Volatility

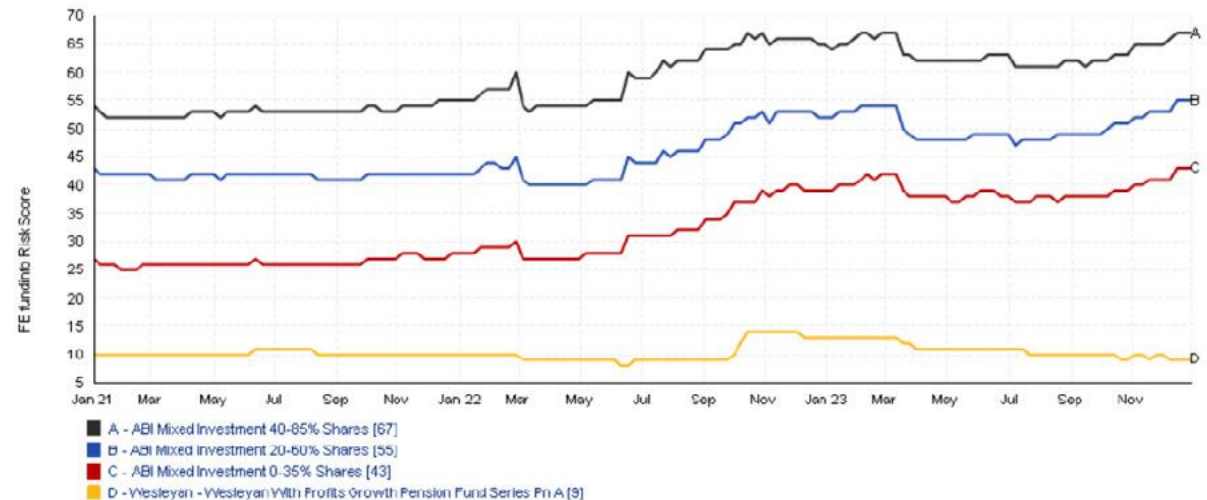
For a fund that invests predominately in real assets, with over 60% equities, the volatility is consistently at a relatively low level, much lower than it's ABI Mixed Investment benchmarks.

Wesleyan With Profits Growth Fund Asset Allocation



Source : With Profits Growth Fund December 2023 Factsheet

FE fundinfo Risk Scores - Wesleyan v Benchmarks



01/01/2021 - 29/12/2023 Powered by data from FE fundinfo

What is an FE risk score?

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 vice versa giving a reliable indication of relative risk. Most volatility measures are based on absolute risk. Because the absolute levels of risk in markets naturally ebb and flow, risk levels can appear to change without there being significant changes to the fundamentals. So these changes could spuriously encourage people to sell or acquire particular investments. Relative risk is not affected in the same way, and is likely to provide a clearer indicator of important risk changes. Scores are recalculated weekly on a rolling three-year total returns basis. Most funds would fall between one and 150 with direct equities scoring above 100 and pure cash = zero. Funds need an 18 month track record to be eligible for a Risk Score. FE fundinfo has introduced a decay factor, so that older values carry less weight and that this means that the scores are more responsive to recent events, without being excessively sensitive.

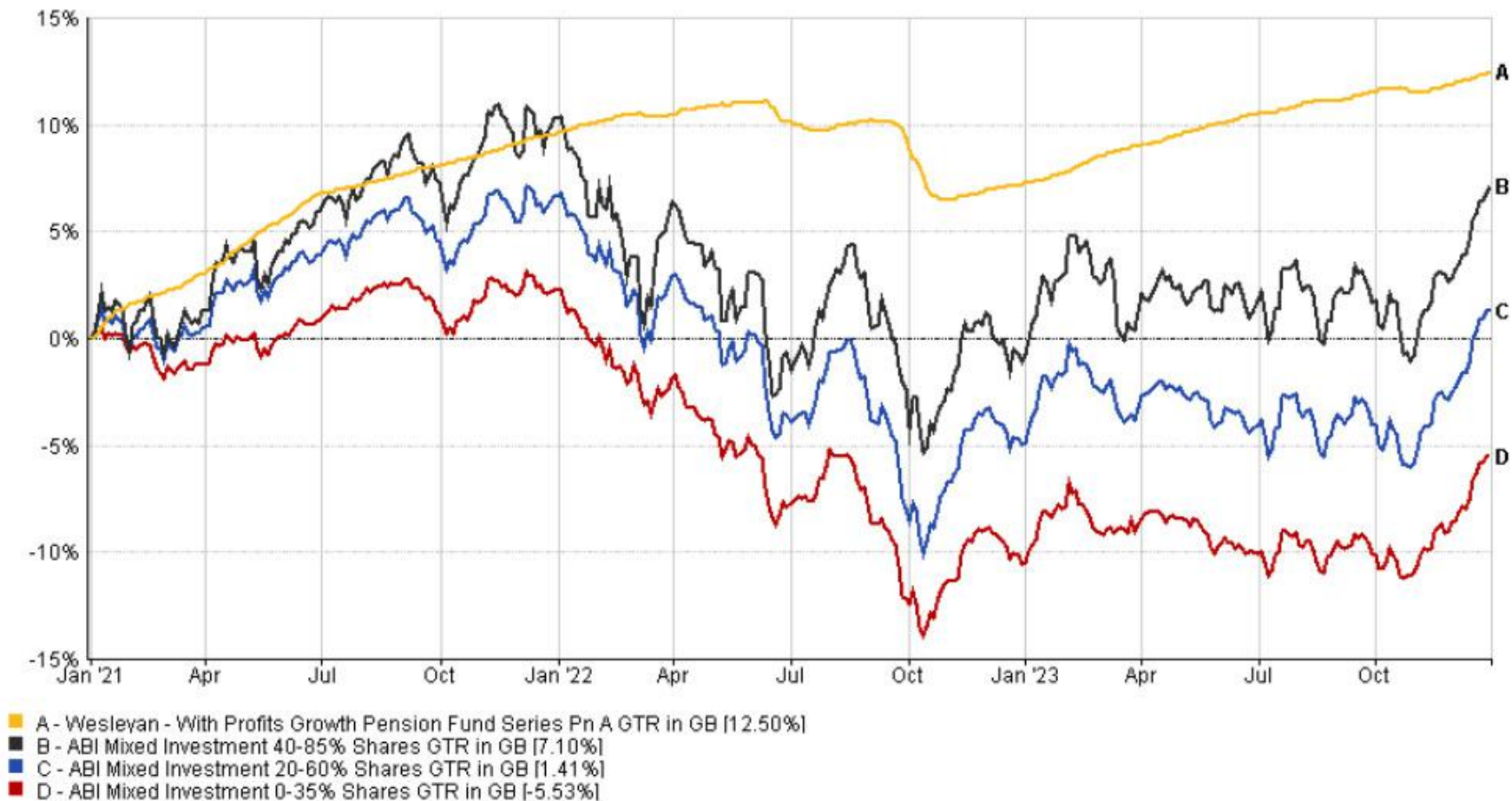
FE fundinfo Risk Scores are designed to be a simple and intuitive tool enabling investors and advisers to measure the risk of an entire portfolio or its constituent elements. Indeed, a portfolio's overall risk can be compared to holdings within it to assess whether benefits have been gleaned from diversification.

Source:
<https://www2.trustnet.com/learn/learnaboutinvesting/FE-Risk-Scores.html>

Fund Performance

Past 3 years

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

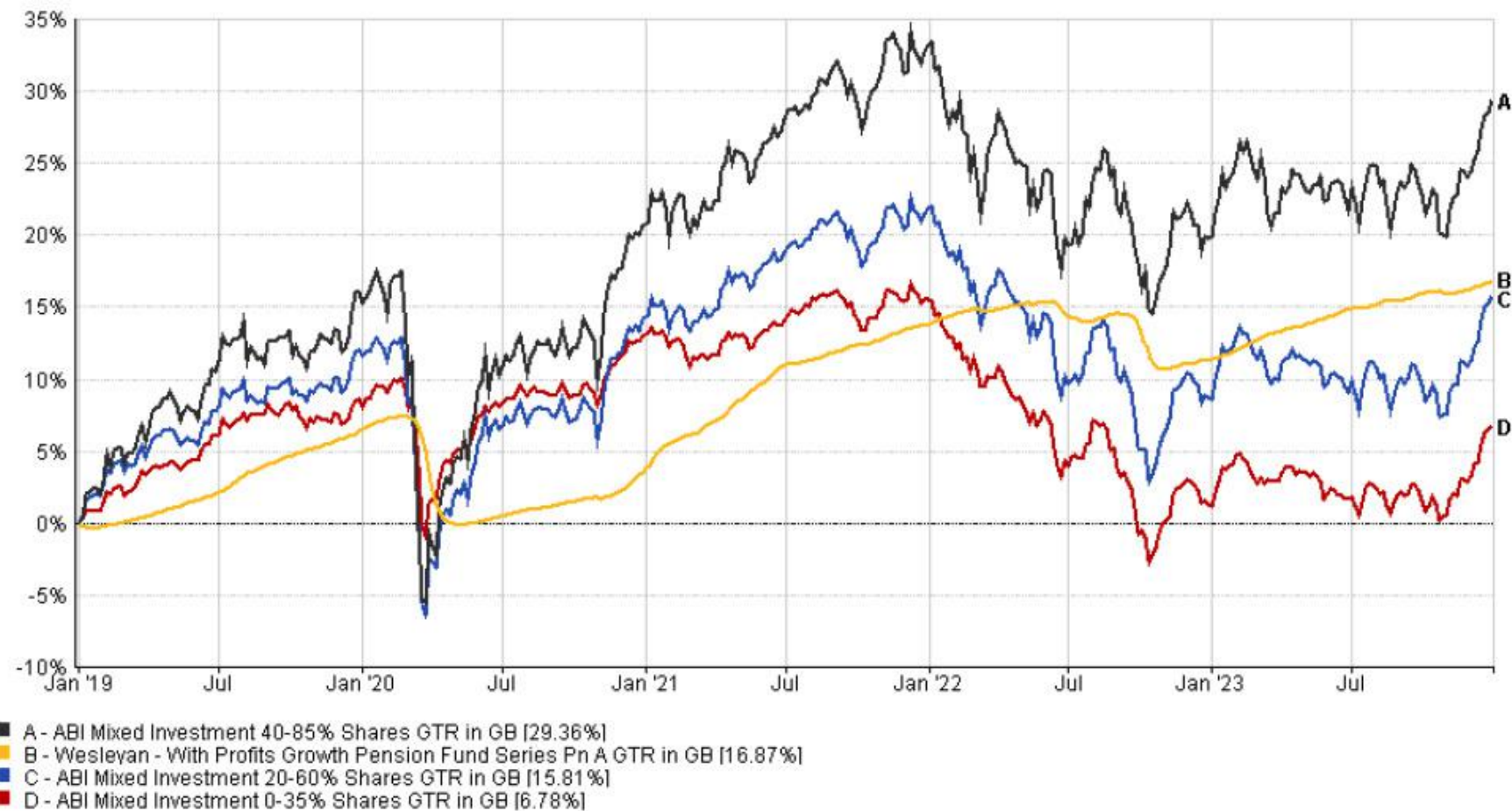


01/01/2021 - 29/12/2023 Data from FE fundinfo2024

Fund Performance

Past 5 years

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



01/01/2019 - 29/12/2023 Data from FE fundinfo2024

Fund Performance

Past 10 years

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

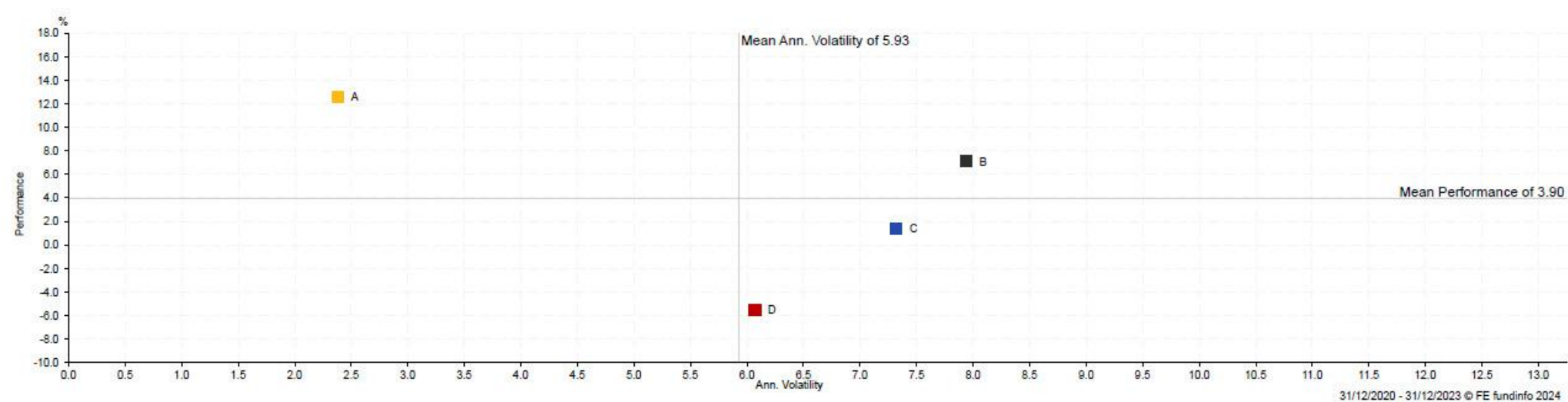


01/01/2014 - 29/12/2023 Data from FE fundinfo2024

Fund Performance and Volatility

Past 3 Years

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



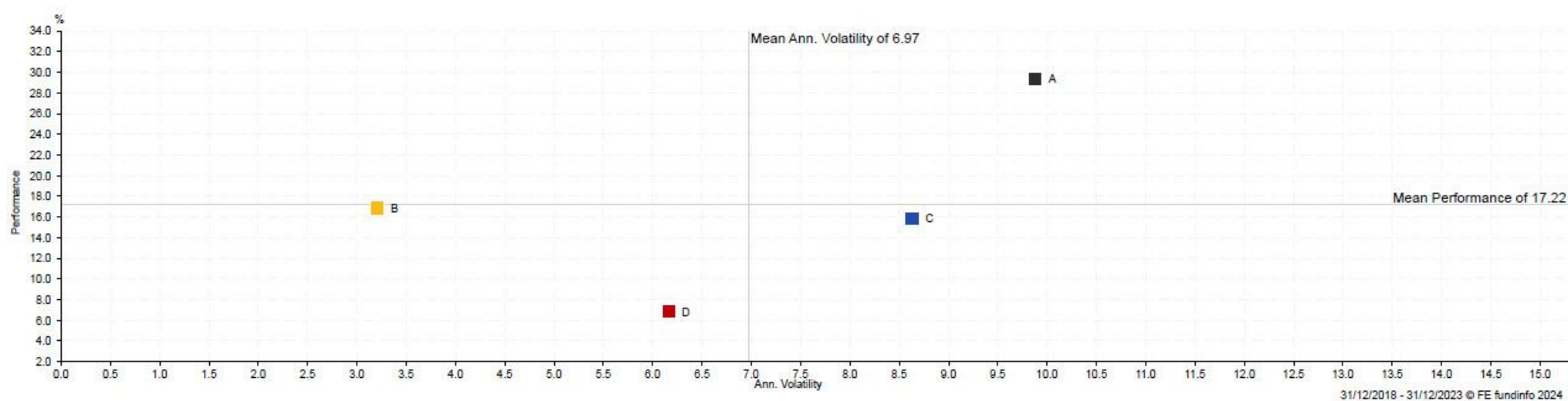
31/12/2020 - 31/12/2023 © FE fundinfo 2024

Key	Name	Performance	Volatility
A	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	12.62	2.38
B	ABI Mixed Investment 40-85% Shares GTR in GB	7.10	7.94
C	ABI Mixed Investment 20-80% Shares GTR in GB	1.41	7.32
D	ABI Mixed Investment 0-35% Shares GTR in GB	-5.53	6.07

Fund Performance and Volatility

Past 5 years

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

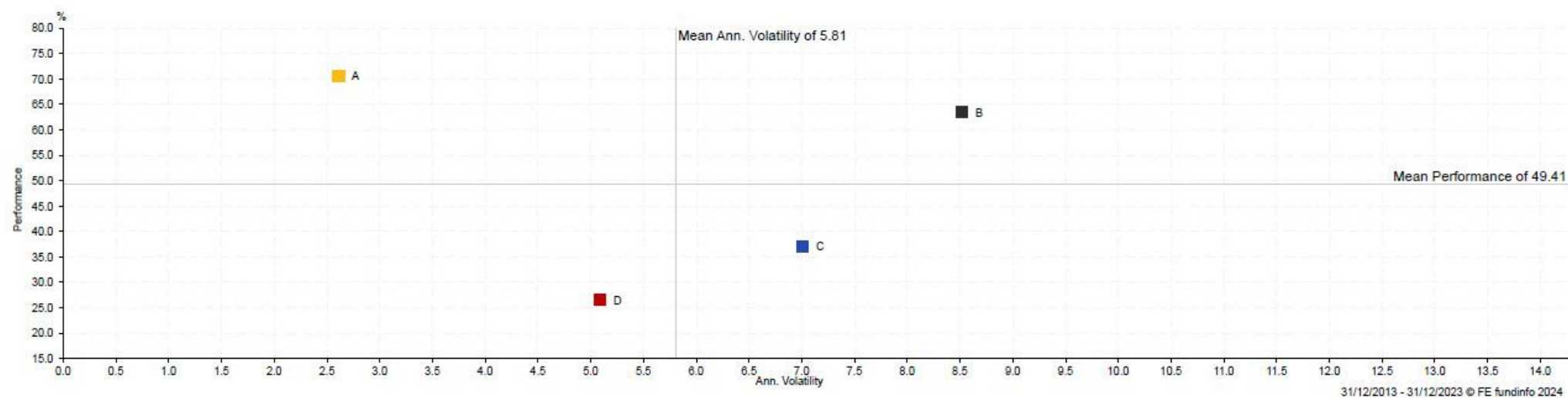


Key	Name	Performance	Volatility
■ A	ABI Mixed Investment 40-85% Shares GTR in GB	29.37	9.88
■ B	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	16.87	3.21
■ C	ABI Mixed Investment 20-60% Shares GTR in GB	15.82	8.63
■ D	ABI Mixed Investment 0-35% Shares GTR in GB	8.83	6.16

Fund Performance and Volatility

Past 10 years

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



31/12/2013 - 31/12/2023 © FE fundinfo 2024

Key	Name	Performance	Volatility
A	Wesleyan - With Profits Growth Pension Fund Series Pn A GTR in GB	70.66	2.61
B	ABI Mixed Investment 40-85% Shares GTR in GB	63.46	8.52
C	ABI Mixed Investment 20-60% Shares GTR in GB	37.00	7.01
D	ABI Mixed Investment 0-35% Shares GTR in GB	26.53	5.09

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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