6 Month Investment Review #9

PEARSONWM.CO.UK

A key part of the Pearson portfolio service is to monitor the underlying performance of each fund within the portfolio for both risk and return

Our Investment Portfolios

Welcome to the 9th Investment Review for Pearson Wealth Management Investment Portfolios.

We have been running our portfolios since 2008 however the aim of the Review is to give you a general feel for what has happened in the financial world over the last six months and how this may have affected your pension or investment.

> **We believe in a holistic approach to investment**

A key part of the reporting is the colour coding. Each Pearson portfolio is colour coded to enable you to spot which category applies to you. The relevant information is then presented in a clear and easy to understand way. However, if you require further clarification, please do not hesitate to contact us.

As you may be aware, we decided to change the name of these brochures last summer and they are now being numbered. However, they will still cover the same time period as before. April to September and October to March.

Market overview

October 2022 to March 2023

With the advent of spring and looking ahead to longer days and warmer weather, it can sometimes feel like deep mid-winter when it comes to investment markets. As if it was not enough to contend with the war in Ukraine and central bankers waging their own war against inflation, we subsequently had to deal with a government budget that turned pretty quickly into a non-budget that was enough to throw investment markets – and in particular the UK bond markets – into turmoil. This year, we followed with a minor banking crisis in the US, the collapse of Credit Suisse and takeover by UBS, and the shocking share price fall of Deutsche Bank in Europe. Markets are all about confidence and when it appears that Governments are acting without rhyme or reason, along with concerns in the banking world, it is easy to see why investment markets sometimes behave as they do.

In reality, all of the above (with the possible exception of the war in Ukraine) are what we call short-term noise enhancers, and as such will always distort markets for short periods of time. Some of these periods will last longer than others, but on the whole, they tend not to distort markets long-term. What do pose a longer-term issue to markets and our overall wealth are inflation and recession, and this is where it appears no-one can agree. Inflation is without doubt currently being cast in the starring role as villain, and possibly for much longer than politicians and central bankers will lead us to believe. If this is to be the case, just what effects will this have on investment markets? In short, we do not yet know. A lot will be dependent on how much further central banks feel they can squeeze rates higher without sending economies into a tailspin and therefore into a possibly deeper than anticipated recession.

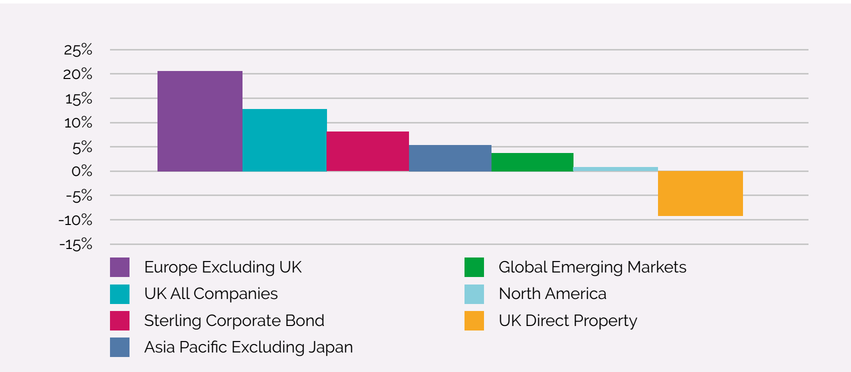
So, would a recession in the US or Europe or even the UK (where we seem to have avoided the dreaded word) have much of an impact on investment markets? Probably, but as markets on a whole have already sold down in anticipation of such a situation arising – we suspect future returns will depend on how markets react when interest rates eventually start to come down. With significant liquidity in place and investors holding greater levels of cash than normal, hopefully this will bring about the much-missed confidence of late, and then sunnier times could be in store.

As you know, we invest for the longer term and on a positive note, if you look at how stock markets have performed over the last 16years (including the Global Financial Crash of 2007/09 and the Pandemic of 2020) you will notice there is a lot of up and down, but overall, the MSCI World index has returned approx. 300% and the FTSE100 approx. 122% – that is an average of 19% a year for the MSCI and 7.6% for the FTSE.

So, as we look ahead to better days, we continue to focus on how the world will navigate the transition away from fossil fuels to more sustainable energy forms. This transition will not be quick or easy but transition we must. For it to work effectively, it must be led by governments putting in place regulation and incentivising investment into the areas that will benefit us all, such as the upgrading of infrastructure and energy efficiency. We feel that by investing in those areas, it will put us in a good place to let the sunshine in.

Ps. Depending on how you look at it, one very small silver lining in the bank collapses, is that bank lending will get tighter. This means that central banks' monetary policy won't have to work so hard to slow the economy and bring inflation down. We know it is a balancing act, but here's hoping for less dramatic rate rises.

Key market performance October 2022 to March 2023



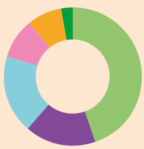
Pearson portfolios – asset allocation

There are four Regular portfolios and four Responsible portfolios that can be invested in which are detailed below. Your pension or investment will be invested in one of these categories. The tables show the aggregate composition of the portfolios with some figures to show the potential risk and return of each category.

For an explanation of the figures and the sources of the information, please see page 14.

We believe in a holistic approach to investment and carry out an attitude to risk with all our clients to determine which is the most relevant portfolio to invest in. This in relation to your capacity for loss will form the basis for our recommendation.

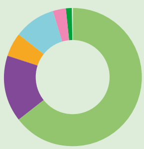
Pearson Cautious/Moderate



- **44.90%** – Equities
- **16.53%** – Fixed Interest
- **18.51%** – Other
- **9.48%** – Property
- **7.93%** – Money Market
- **2.64%** – Commodity & Energy

FE Risk Score	62
Guide Equity content	48%
max 6 month gain	14.40%
max 6 month loss	-8.43%

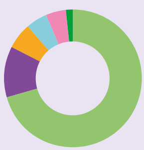
Pearson Moderate



- **64.51%** – Equities
- **15.55%** – Fixed Interest
- **5.62%** – Money Market
- **9.84%** – Other
- **2.97%** – Property
- **1.52%** – Commodity & Energy

FE Risk Score	70
Guide Equity content	63%
max 6 month gain	17.19%
max 6 month loss	-8.60%

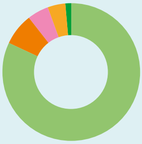
Pearson Moderate/Adventurous



- **70.68%** – Equities
- **11.83%** – Fixed Interest
- **6.34%** – Money Market
- **5.00%** – Other
- **4.50%** – Property
- **1.63%** – Commodity & Energy

FE Risk Score	79
Guide Equity content	76%
max 6 month gain	21.12%
max 6 month loss	-10.11%

Pearson Adventurous



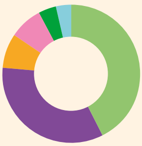
- **81.88%** – Equities
- **7.34%** – Emerging Markets Equities
- **5.00%** – Property
- **4.17%** – Money Market
- **1.35%** – Commodity & Energy

FE Risk Score **101**

Guide Equity content **100%**

max 6 month gain **27.69%**
max 6 month loss **-12.71%**

Pearson Responsible Cautious/Moderate



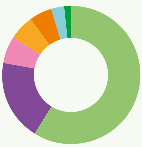
- **42.50%** – Equities
- **34.06%** – Fixed Interest
- **7.93%** – Money Market
- **7.85%** – Property
- **4.02%** – Commodity and Energy
- **3.57%** – Other

FE Risk Score **64**

Guide Equity content **48%**

max 6 month gain **15.22%**
max 6 month loss **-8.24%**

Pearson Responsible Moderate



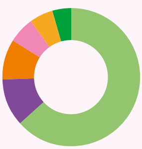
- **59.04%** – Equities
- **18.78%** – Fixed Interest
- **6.54%** – Property
- **5.70%** – Money Market
- **5.47%** – Emerging Markets Equities
- **2.93%** – Other
- **1.52%** – Commodity & Energy

FE Risk Score **81**

Guide Equity content **63%**

max 6 month gain **16.79%**
max 6 month loss **-10.11%**

Pearson Responsible Moderate/Adventurous



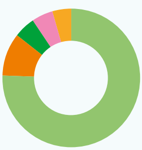
- **63.12%** – Equities
- **11.24%** – Fixed Interest
- **9.39%** – Emerging Markets Equities
- **6.00%** – Property
- **5.73%** – Money Market
- **4.16%** – Commodity & Energy

FE Risk Score **91**

Guide Equity content **76%**

max 6 month gain **20.67%**
max 6 month loss **-10.66%**

Pearson Responsible Adventurous



- **75.26%** – Equities
- **9.91%** – Emerging Markets Equities
- **5.10%** – Commodity & Energy
- **5.00%** – Property
- **4.16%** – Money Market

FE Risk Score **102**

Guide Equity content **100%**

max 6 month gain **23.29%**
max 6 month loss **-11.68%**

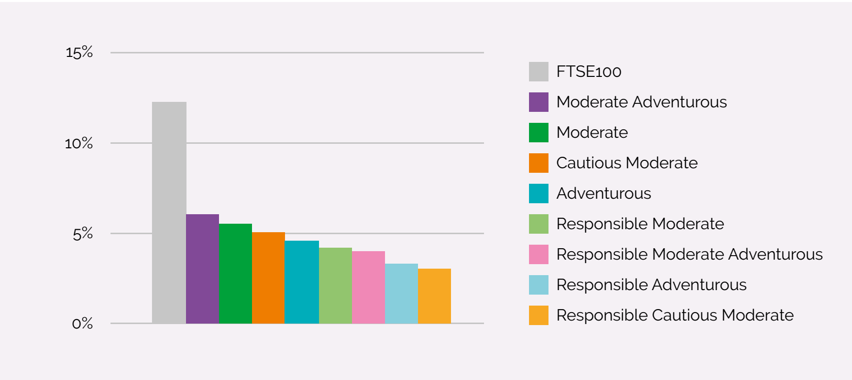
6 month performance

October 2022 to March 2023

The graphs below show how the Pearson portfolios within the different risk categories have behaved over the last six months, alongside the FTSE 100. The first graph shows the total return for the last six months whereas the second graph illustrates the 'month by month' performance (all data powered by FE).

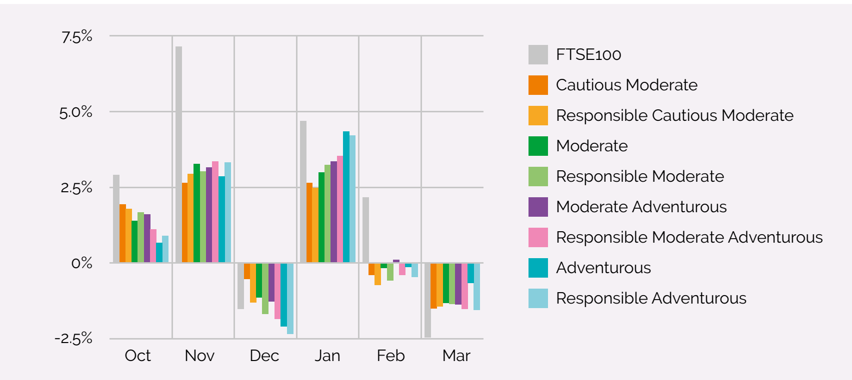
Cumulative performance – 6 Months

01/10/2022 to 31/03/2023



Discrete performance – 6 Months

01/10/2022 to 31/03/2023

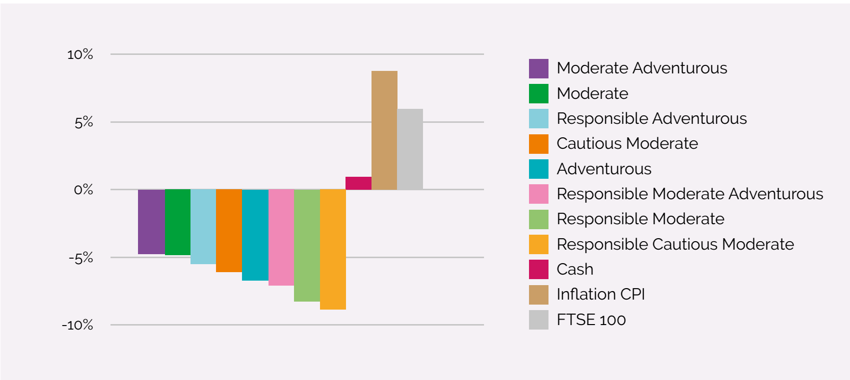


Longer term performance

The graphs below show how the Pearson portfolios within the different risk categories have performed over the longer term. The first graph shows the total return for the last year whereas the second graph illustrates the performance in the last 5 years. For comparison, the returns of Cash (MoneyFacts 90 days notice 10K), inflation (UK Consumer Price index) and FTSE 100 shares are also shown (all data powered by FE).

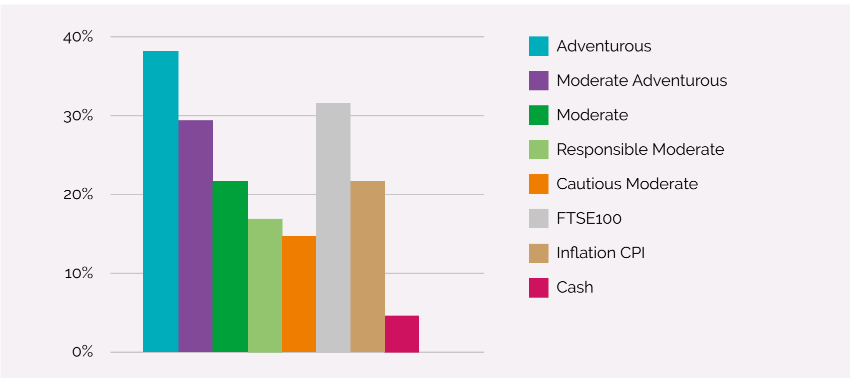
Pearson portfolio – 1 year

31/03/2022 to 31/03/2023



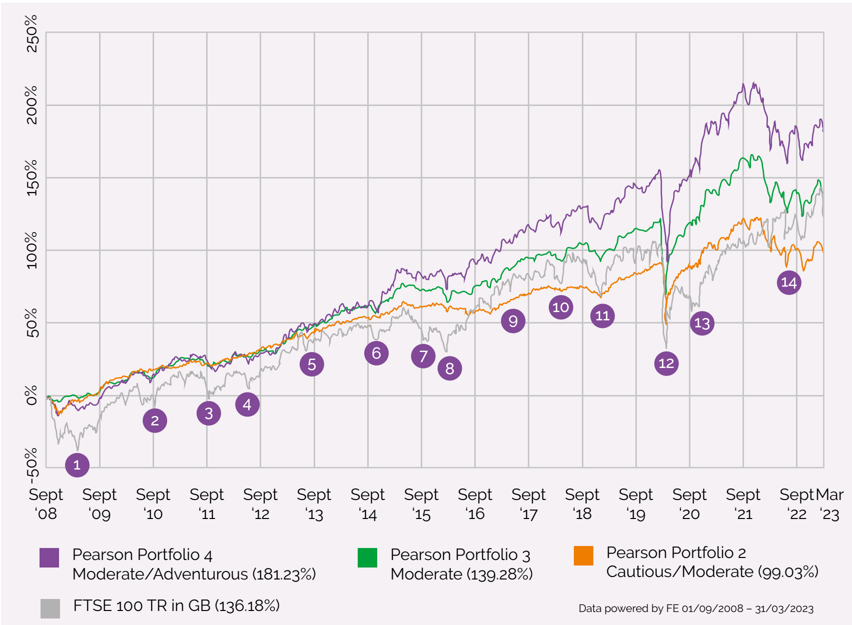
Pearson portfolio – 5 year

31/03/2018 to 31/03/2023



Market Volatility 14 year performance context

In the last 13 years the markets have seen some extreme short-term ups and downs, therefore we have created the graph below in order to put these and the performance of two of our most popular portfolios into context alongside the FTSE 100.

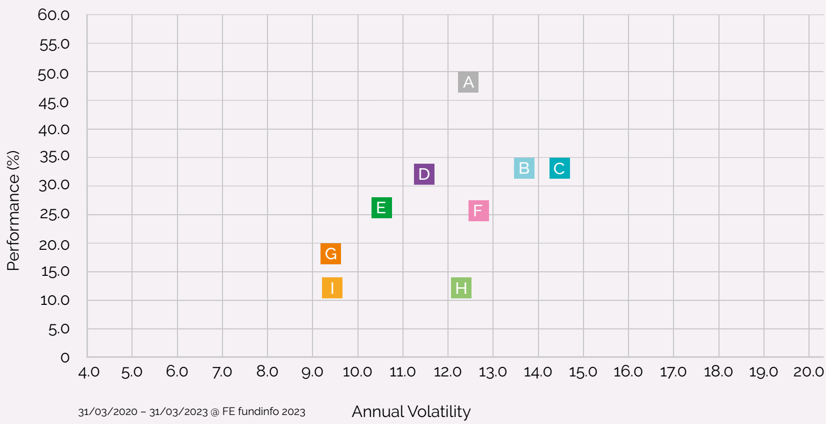


1. **2008/2009** Lehman Brothers file for bankruptcy. HBOS and Lloyds in merger talks. Bank of England cuts interest rates to 0.5%. Greek debt crisis starts.
2. **2010** Flash Crisis Dow Jones loses nearly 1000 points. US Debt.
3. **2011** Volatile Markets plummet. Japanese earthquake.
4. **2012** Spanish debt crisis. London Olympics. Libor scandal.
5. **2013** US deficit decline. Euro at its strongest. Gold price tumbled.
6. **2014** Ebola breakout. Industrial problems. Fear of US slowdown.
7. **2015** Fears of a Chinese slowdown, Oil prices fall.
8. **2016** EU Referendum. Donald Trump elected USA president.
9. **2017** Global market volatility and Brexit uncertainty
10. **2018** US/China trade war, US interest rate hikes. Continued Brexit saga.
11. **2019** Market volatility. FED lowers Interest rates. Brexit end in sight. USA/China agree trade deal
12. **2020** Coronavirus Pandemic. Oil Price Crash. Brexit Negotiations
13. **2021** Inflation worries, supply chain issues, energy prices rise.
14. **2022** War in Ukraine. Oil price shock. Persistent inflation and global interest rate hikes.

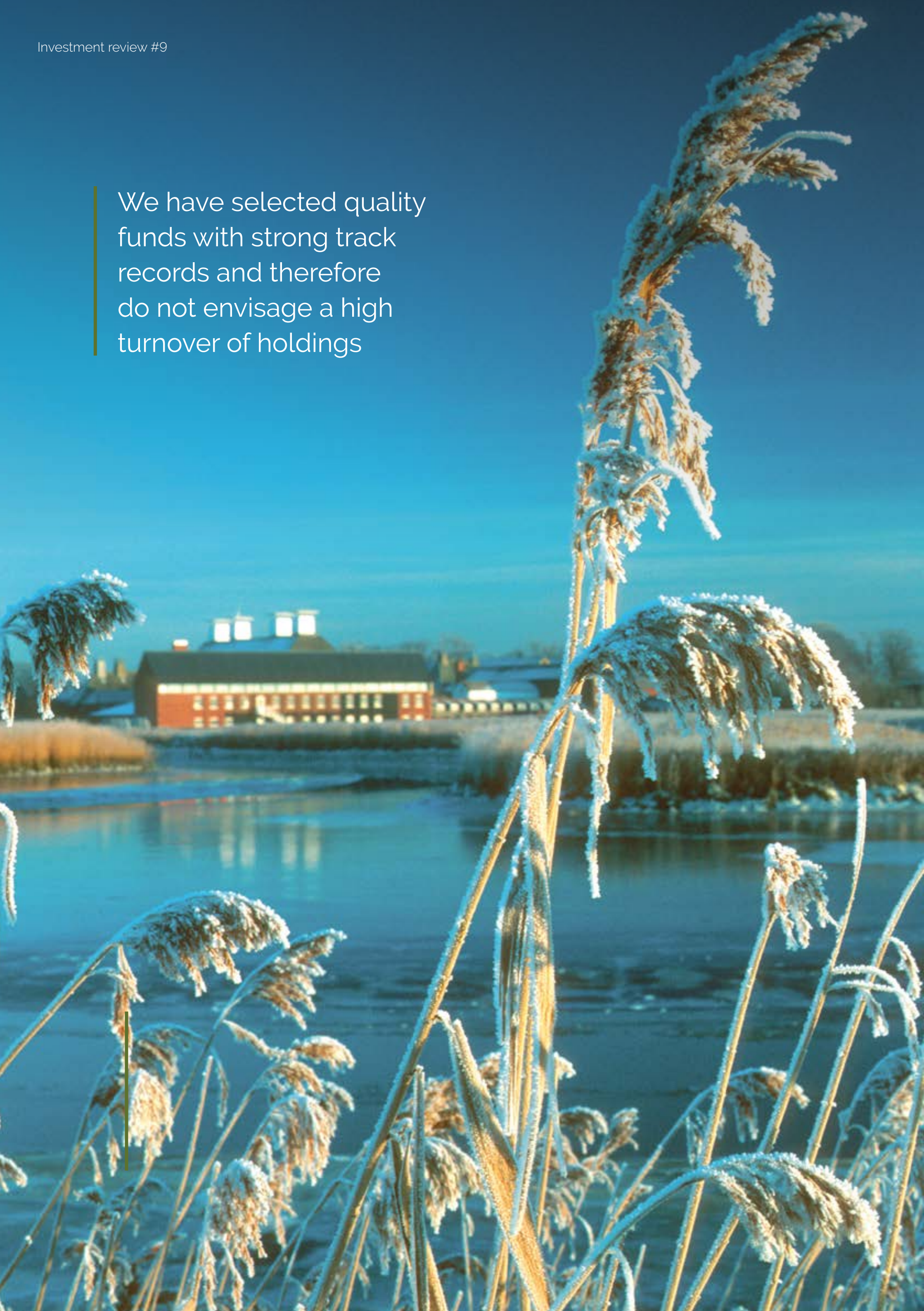
Risk vs return trade-off

Higher risk generally means a higher return on your investment. However, the higher the risk the higher the chance of volatility.

The risk / return ratio of our portfolios is shown in the scatter chart below along with the FTSE 100 for comparison.



Key	Name	Performance	Volatility %
A	FTSE 100 TR in GB	49.14	12.27
B	Pearson Portfolio 5R Responsible Adventurous – TR in GB	34.07	13.66
C	Pearson Portfolio 5 Adventurous – Transact TR in GB	34.00	14.45
D	Pearson Portfolio 4 Moderate Adventurous – Transact TR in GB	31.79	11.63
E	Pearson Portfolio 3 Moderate – Transact TR in GB	26.63	10.50
F	Pearson Portfolio 4R Responsible Mod Adv – TR in GB	25.65	12.59
G	Pearson Portfolio 2 Cautious Moderate – Transact TR in GB	19.09	9.33
H	Pearson Portfolio 3R Responsible Moderate – TR in GB	17.86	11.53
I	Pearson Portfolio 2R Responsible Cau Mod – TR in GB	12.17	9.44



We have selected quality funds with strong track records and therefore do not envisage a high turnover of holdings

Performance review

Inflation and central bank interest rate rises are likely to dominate headlines for 2023. Both offer considerable headwinds to investment, but we take a long-term view and continue to allocate to the areas that we feel are needed for a sustainable future.

Pearson fund review policy

A key part of the Pearson portfolio service is to monitor the underlying performance of each fund within the portfolio for both risk and return. We have selected quality funds with strong track records and therefore do not envisage a high turnover of holdings. However, there will be occasions when the performance of an individual fund will lead to it being removed from the portfolio(s). There are a number of factors that determine this decision, e.g. consistent under performance or a change in management team.

It is also important to have patience with a fund that is just suffering from short term under performance.

We operate a traffic light system and will move a fund from a 'green' to 'amber' rating if the fund requires closer scrutiny at the next review. If it then shows sufficient improvement, it will then move back to 'green'. However, if the fund consistently under performs without good reason its status will change to 'red' and the fund will be removed from the portfolio(s). A replacement fund will be selected and all clients holding the fund within their portfolio will be notified. Upon receipt of their authority, the client's fund will be switched accordingly.

Result of fund & asset allocation review

The Investment Committee meets on a Quarterly basis and one of its primary functions is to review our existing fund range.

Within this meeting we scrutinise any funds which we feel are performing significantly differently from their peer group or benchmark. We then run this against our internal performance and risk measurements.

Following the most recent review of the portfolios, we are happy with our current asset allocation and so have made no changes.

Asset allocation table pages 6 & 7 Important information

The maximum gain and loss figures in the asset allocation tables on pages 6 & 7 are taken from Financial Express figures based on the last 3 years to include the Responsible portfolios.

FE Risk Score: Financial Express have introduced FE Risk Scores to provide a single, easy to understand measure of risk across a range of investments. In the UK, risk scores measure the riskiness of any given investment in relation to the FTSE 100. Weekly volatility is measured over 3 years, with recent behaviour counting more heavily than earlier behaviour. The risk score is calculated weekly and can be tracked over time. Cash type investments will have scores near zero, investment funds will tend to have scores in the 0-150 range. The FTSE 100 is always 100, there is no upper limit to the scores

The asset allocation figures on pages 6 & 7 are aggregated based on the current holdings within the portfolios as of September 2022. They will vary daily subject to market fluctuations. Rebalancing will be recommended if equity content exceeds the benchmark maximums. There is no guarantee that any of the model portfolios will achieve their stated objectives. Each model portfolio may also experience more or less volatility than expected. The value of investments will fall as well as rise and are not guaranteed. Past performance is no guide to future performance.

Additional important information

This report has been issued by the Investment Committee of Pearson Wealth Management Ltd using data provided by Financial Express. Care has been taken to ensure that the information is correct but Financial Express and Pearson Wealth Management Ltd neither warrants, represents nor guarantees the contents of the information, or accept responsibility for errors, inaccuracies, omissions or any inconsistencies herein.

Past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Currency fluctuations can also affect fund values. This report does not constitute advice and you should speak to your financial adviser before you make any alterations to investments or pension plans.

Performance figures are based on bid to bid gross returns and do not include plan, contract or ongoing adviser charges. Please refer to your policy documentation for further details.

Financial Express limited registration number: 2405213. Registered office:

7 Chertsey Road, Woking, Surrey, GU12 5AB

www.financialexpress.net

About Pearson Wealth Management Ltd

Pearson Financial Consultants Ltd formed in 2005 and re-branded to Pearson Wealth Management Ltd in 2018. Our success has been built on referrals from our existing clients and our professional connections, which we believe is strong evidence of the level of service we offer to our clients.

We are a locally owned, genuinely independent company and we believe the key to successful financial planning is to work in partnership with our clients to create a better understanding of their objectives and priorities. Being able to provide a wide range of expertise amongst our advisers allows us to build long term relationships with our clients throughout their financial journey.

Our client's financial wellbeing is at the heart of our business. With over 180 years of financial services experience within the firm and over £200 million of assets under management, we have the expertise, experience and knowledge to be able to advise on all aspects of financial planning.

Our services

Each recommendation is tailored to suit the personal circumstances of the client from the range of services we offer. This includes:

- Retirement planning
- Investment management
- IHT / Estate Planning
- Protection
- Long Term Care

Pearson Wealth Management Ltd

Tuddenham Hall Estate Office
Tuddenham, Ipswich,
Suffolk IP6 9DD

T: 01473 784430
F: 01473 784687
E: info@pearsonwm.co.uk

Safestore Chelmsford,
17-19 Richmond Road, Dukes Park
Industrial Estate, Chelmsford,
Essex, CM2 6UA

T: 01376 503561
F: 01473 784687
E: info@pearsonwm.co.uk

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Directors: A.J. Keith and S.Pyne. Head office: Tuddenham Hall Estate Office, Tuddenham, Ipswich, Suffolk, IP6 9DD.

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