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**Bean Counting:**  
Investment Report  
Update Q3 2023



# At a glance...

## Market background

Despite global equity markets falling over the third quarter, UK investors saw a modest positive return due to the depreciation of sterling against major currencies. This was partially due to expectations that interest rates would remain “higher for longer”, as inflation slowed across most major economies but remained above central banks' targets.

Major central banks continued to raise interest rates to control inflation. The Bank of England, Federal Reserve, and European Central Banks increased their policy rates between 0.25%-0.5%, taking them to 5.25% p.a., 5.25%-5.50% p.a. and 4.0% p.a., respectively. This year, a further quarter-point rise from major central banks is expected, before potential interest rate cuts in 2024 and 2025.

Government bonds fell in value, with longer dated bonds underperforming their shorter dated counterparts. Corporate bonds rose in value and outperformed government bonds, as investment grade corporate bond credit spreads (the difference between government and corporate bond yields) fell.

Geopolitical tensions remained high during the quarter. G7 countries announced a plan to offer Ukraine long-term security support by continuing existing financial aid and providing military equipment. However, NATO refrained from giving any timeline for Ukraine's accession to the military alliance.

## Performance: Retirement Pathway Funds

Those Aon Managed Retirement Pathway Funds closer to retirement generated positive returns due to the rise in corporate bond values and short-maturity government bonds. The Aon Managed Retirement Pathway Funds that have not yet started de-risking experienced a slight fall in value, as gains from equities (in sterling terms) were offset by a fall in impact equity and property/infrastructure.

## Fund changes

Within the Aon Managed Diversified (Multi) Asset Fund:

- We increased the allocation to equity and credit. Within our credit allocation we increased our exposure to asset-backed securities and multi-asset credit, as they offer relatively attractive yields.

Within the Aon Managed Global Equity Fund:

- We replaced the BlackRock Emerging Market Index Fund with the newly launched UBS Global Emerging Market Equity Climate Transition Fund.



# Aon Managed Retirement Pathway 2052-54 Fund Member 30 years from retirement

## Scheme performance & benchmark



### 5 year (annualised)

**+5.5%** ↑

Underperformed long-term return objective of CPI +4.0% p.a. by 2.9% p.a.

### Comments

Since 1 August 2023, c89% of the Fund is invested in funds with a climate / ESG focus, with a further 10% invested in the Aon Managed Global Impact Fund.

This provides a c61% reduction in carbon footprint (scope 1 & 2) from 2019 to 2022<sup>1</sup>.

### 3 year (annualised)

**+7.3%** ↑

Outperformed long-term return objective of CPI +4.0% p.a. by 3.3% p.a.



Source: Aegon, Aon Investments Limited. Returns are to 30 September 2023 and are shown gross of fees. Please note the long term CPI+ objective is not shown for periods less than three years.

<sup>1</sup>Source: Aon, MSCI, underlying managers. Carbon footprint reduction relates to scope 1 & 2 greenhouse gas emissions only and shows the reduction from 2019 to 2022 based on those assets where emissions data is available.

# Aon Managed Retirement Pathway 2052-54 Fund Member 30 years from retirement (continued)

## Performance comments

Over the quarter, the Fund returned -0.4% gross of fees against a backdrop of negative equity returns combined with sterling depreciation.

The Aon Managed Global Equity Fund returned 0.3%. The allocation to multi-factor equities performed in line with the market, benefitting from its underweight large-cap technology. The allocation to emerging market equities fell, while the UBS Global Equity Climate Transition Fund generated a flat return.

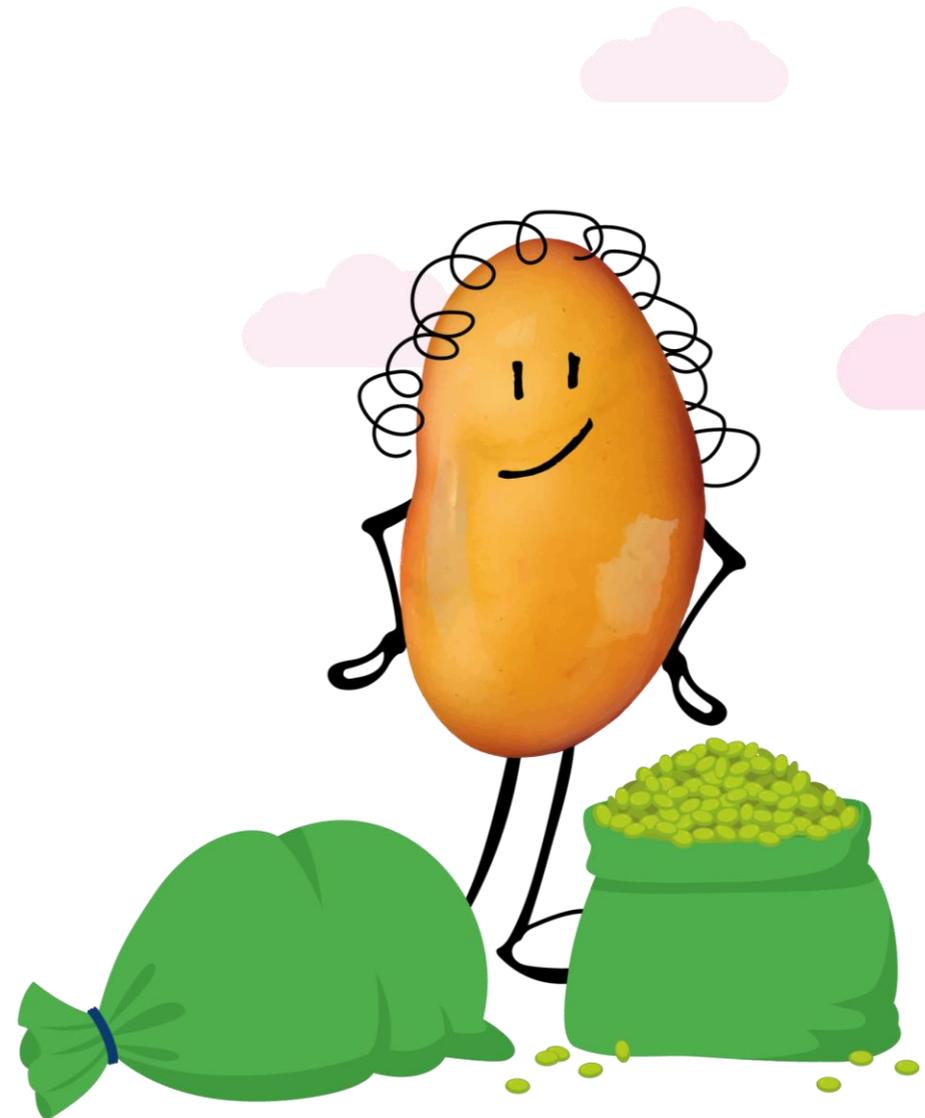
The listed property and infrastructure allocation fell in value, due to continued high interest rates. This was partly offset by exposure to UK commercial property, which generated a flat return.

The Aon Managed Global Impact Fund returned -4.2%, driven by stock selection and the impact of high interest rates.

## New and notable

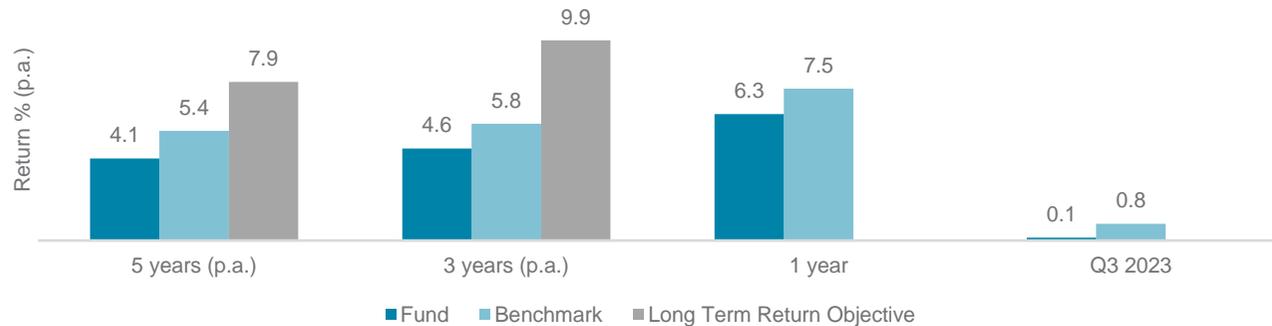
The Fund invests mainly in diversified global equities with a smaller allocation to property and infrastructure. This includes a 10% allocation to the Aon Managed Global Impact Fund.

On 1 August 2023, we replaced our passive emerging market equity exposure with the newly launched UBS Global Emerging Market Equity Climate Transition Fund. We provide more detail under Fund Changes.



# Aon Managed Retirement Pathway 2031-33 Fund Member 10 years from retirement

## Scheme performance & benchmark



### 5 year (annualised)

**+4.1% ↑**

Underperformed long-term return objective of CPI +3.5% p.a. by 3.8% p.a.

### Comments

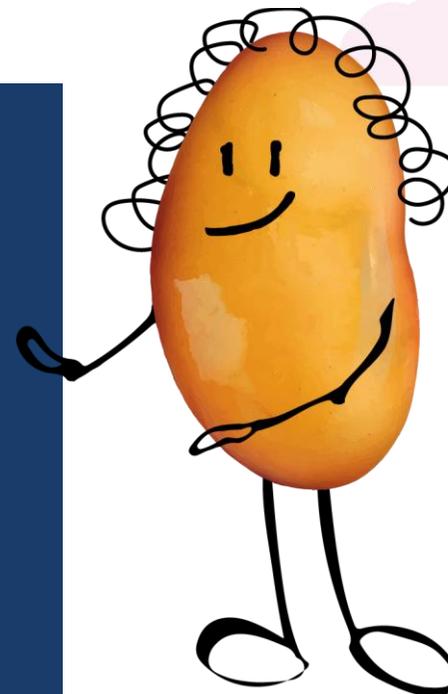
During Q3 2023, the Fund's asset allocation was unchanged, with no de-risking taking place.

This follows additional de-risking carried out in the first of 2021 and first half of 2022. The Fund remains slightly ahead of its original de-risking plan, further reducing risk for members as the Fund approaches its target date.

### 3 year (annualised)

**+4.6% ↑**

Underperformed long-term return objective of CPI +3.3% p.a. by 5.3% p.a.



# Aon Managed Retirement Pathway 2031-33 Fund - Member 10 years from retirement (continued)

## Performance comments

Over the quarter, the Fund returned 0.1% gross of fees, against a backdrop of negative equity returns combined with sterling depreciation and rising interest rates.

The Aon Managed Initial Growth Phase Fund returned 0.1%, with positive returns from equities offset by falling property and infrastructure values. The Aon Managed Global Impact Fund returned -4.2%, driven by stock selection.

The Aon Managed Passive Corporate Bond Fund returned 2.2%, as corporate bond values rose. The Aon Managed Diversified Multi-Strategy Bond Fund returned 1.2%, benefiting from its allocations to asset-backed securities.

Meanwhile, the Aon Managed Diversified Asset Fund returned 0.1%, with gains from credit, gold and overseas currency offset by negative returns from equities and government bonds.

The Aon Managed Up to 5 Year Gilt Index Fund and Aon Managed Short Term Inflation Linked Fund were the best-performing strategies and returned 2.5% and 2.4% respectively.

## New and notable

Following the latest review, the Fund's allocation remained unchanged over the third quarter of 2023. This reflected higher inflation and weaker returns seen over 2022.

We continue to monitor this regularly going forward.

On 1 August 2023, we replaced our passive emerging market equity exposure with the newly launched UBS Global Emerging Market Equity Climate Transition Fund. We provide more detail under Fund Changes.



# Aon Managed Retirement Pathway 2022-24 Fund Member at retirement

## Scheme performance & benchmark



### 5 year (annualised)

**+3.0% ↑**

Underperformed long-term return objective of CPI +2.3% p.a. by 3.7% p.a.

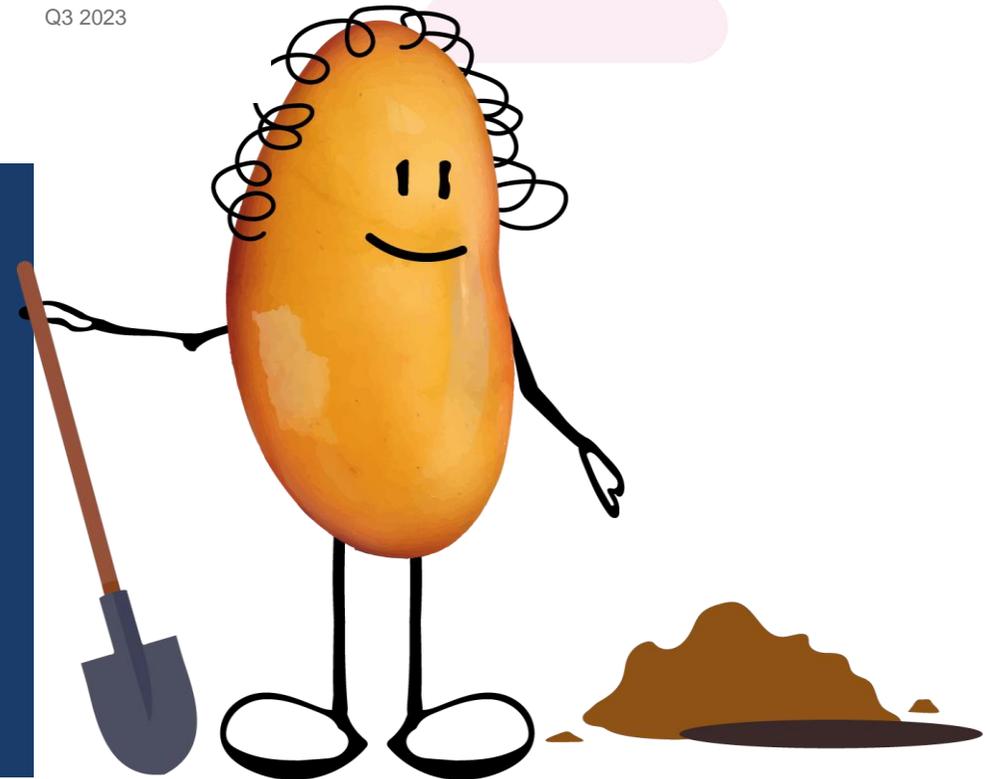
### 3 year (annualised)

**+2.1% ↑**

Underperformed long-term return objective of CPI +2.2% p.a. by 6.7% p.a.

### Comments

As the Fund progresses past its target date, assets continue to be switched out of the Aon Managed Initial Growth Phase Fund and invested across a range of assets.



# Aon Managed Retirement Pathway 2022-24 Fund Member at retirement (continued)

## Performance comments

Over the quarter, the Fund returned 0.7% gross of fees, against a backdrop of negative equity returns combined with sterling depreciation and rising interest rates.

The Aon Managed Initial Growth Phase Fund returned 0.1%, with positive returns from equities offset by falling property and infrastructure values. The Aon Managed Global Impact Fund returned -4.2%, driven by stock selection.

The Aon Managed Passive Corporate Bond Fund returned 2.2%, as corporate bond values rose. The Aon Managed Diversified Multi-Strategy Bond Fund returned 1.2%, benefiting from its allocations to asset-backed securities.

Meanwhile, the Aon Managed Diversified Asset Fund returned 0.1%, with gains from credit, gold and overseas currency offset by negative returns from equities and government bonds.

The Aon Managed Up to 5 Year Gilt Index Fund and Aon Managed Short Term Inflation Linked Fund were the best-performing strategies and returned 2.5% and 2.4% respectively.

## New and notable

The Fund reached its target date on 30 June 2023. We continue to de-risk the Fund as it moves past its target date and, over the third quarter, we de-risked in line with the original plan.

We continue to monitor this regularly going forward.

On 1 August 2023, we replaced our passive emerging market equity exposure with the newly launched UBS Global Emerging Market Equity Climate Transition Fund.



## Global Equities

**0.6%** ↑

Global equity markets generated -2.4% in local currency terms, but the appreciation of the dollar against sterling increased returns.

## UK Equities

**2.6%** ↑

UK equities generated positive returns, due to their significant exposure to energy that performed well.

## US Equities

**1.0%** ↑

The notable appreciation of the US dollar against the sterling increased returns in sterling terms.

## Index-Linked Gilts

**-4.7%** ↓

Yields on index-linked gilts rose higher for long maturities than for shorter maturities.

## UK Corporate Bonds

**2.3%** ↑

UK investment grade credit spreads fell by 0.10% p.a. to 1.44% p.a., based on iBoxx Sterling Non-Gilts data.

## Property

**-0.2%** ↓

Income return remained steady over the quarter but was offset by continued fall in capital values.

## Fixed Interest Gilts

**-0.6%** ↓

Short-dated gilts outperformed medium and long-dated gilts given their lower duration when yields rose strongly.

## Pound Sterling

**-4.0%** ↓

Sterling weakened against the US dollar ending the quarter at \$1.22/£.

