KraftHeinz

Bean Counting:

Investment Report
Update Q2 2024

At a glance…

Market background

Global equity markets rose over the second quarter of 2024. Returns were driven by good company earnings and continued slowing of inflation across most major economies. Returns in sterling terms were reduced as sterling appreciated against the Euro and Yen.

Government bonds fell in value over the quarter, as yields rose. This was driven by the market's expectation that central banks would keep interest rates higher for longer, as they reiterated their commitments to bringing inflation back to target. The Bank of England and US Federal Reserve maintained interest rates at 5.25% p.a. and 5.25%-5.50% p.a., respectively. Elsewhere, the European Central Bank reduced its interest rate by 0.25% to 3.75% p.a. and emphasised that further rate cuts 'depend on the inflation data'.

Investment grade corporate bonds were flat over the quarter, as the positive return from income was more than offset by a rise in government bond yields and a slight increase in credit spreads (the difference between government and corporate bond yields).

UK Prime Minister Rishi Sunak announced a snap general election on July 4. In that election, the Labour Party returned to government after 14 years in opposition, winning 412 seats with a vote share of 33.8%.

Performance: Retirement Pathway Funds

All members invested in the Aon Managed Retirement Pathway Funds experienced positive returns, benefiting from the positive equity market returns. Returns for members closer to retirement were partly offset by flat returns from corporate bonds and falling government bond values.

Performance of the Aon Managed Retirement Pathway Funds generated positive returns, albeit slightly behind their long-term inflation linked return objectives. This reflects strong returns from equities against an environment of higher inflation and rising interest rates.

At a glance…

Fund changes

Over Q2 2024 we continued with the implementation of the strategic asset allocation changes outlined in last quarter's update:

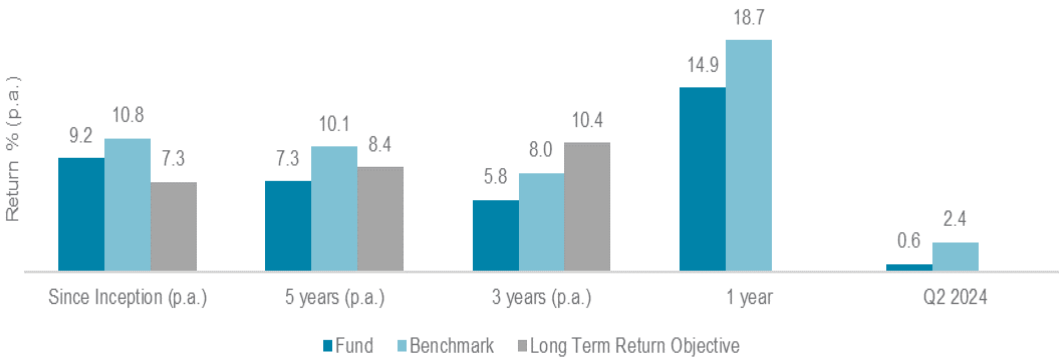
- We increased the allocation to short-dated inflation-linked government bonds while reducing exposure to corporate bonds and equities, and made changes to our corporate bond portfolio to invest wholly in actively managed funds. Governments bonds were introduced to the portfolios from 15 years before retirement. These changes were made over the first six months of 2024 and were fully in place by 30 June 2024.
- Within the Aon Managed Global Equity Fund, we reduced the allocation to multi-factor equities with a corresponding increase in exposure to Climate Transition equities. The changes within the equity portfolios are being made on a phased basis and will reach the intended target allocations by end February 2025.

The revised target allocation allowing for the changes is shown in the chart below:

Additionally, over the quarter, within the Aon Managed Diversified Asset Fund we introduced an allocation to gold through the BlackRock Physical Gold Fund to provide further diversification within the Fund. We reduced our exposure to equities, corporate and government bonds alongside a slight increase in the allocation to cash.

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

Scheme performance & benchmark



5 year (annualised)

+7.3% ↑

Underperformed long-term return objective of CPI +4.0% p.a. by 1.1% p.a.

Since inception(annualised)

+9.2% ↑

Outperformed long-term return objective of CPI +4.0% p.a. by 1.9% 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 c66% reduction in carbon footprint (scope 1 & 2) from 2019 to 2023[1]

Source: Aegon, Aon Investments Limited. Returns are to 30 June 2024 and are shown gross of fees. Returns are calculated using daily dealing prices and restated over all time periods to reflect the change in performance methodology implemented on 30 June 2024. Benchmarks are chain-linked using monthly underlying fund benchmarks and asset allocations and have been restated over all time periods to reflect this change. Please note the long term CPI+ objective is not shown for periods less than three years.

1Source: Aon, MSCI, underlying managers. Carbon footprint reduction relates to scope 1 & 2 greenhouse gas emissions only and shows the reduction from 2019 to 2023 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 0.6% against a backdrop of positive equity market returns.

The Aon Managed Initial Growth Phase Fund returned 0.6%. The UBS Global Emerging Market Equity Climate Transition Fund was the best performing strategy and returned 4.1%. The UBS Global Equity Climate Transition Fund returned 3.3%, benefiting from an underweight to the consumer discretionary and energy sectors, and strong performance from technology. The multi-factor equity allocation fell in value and lagged the broader market, mainly due to its large-cap technology underweight.

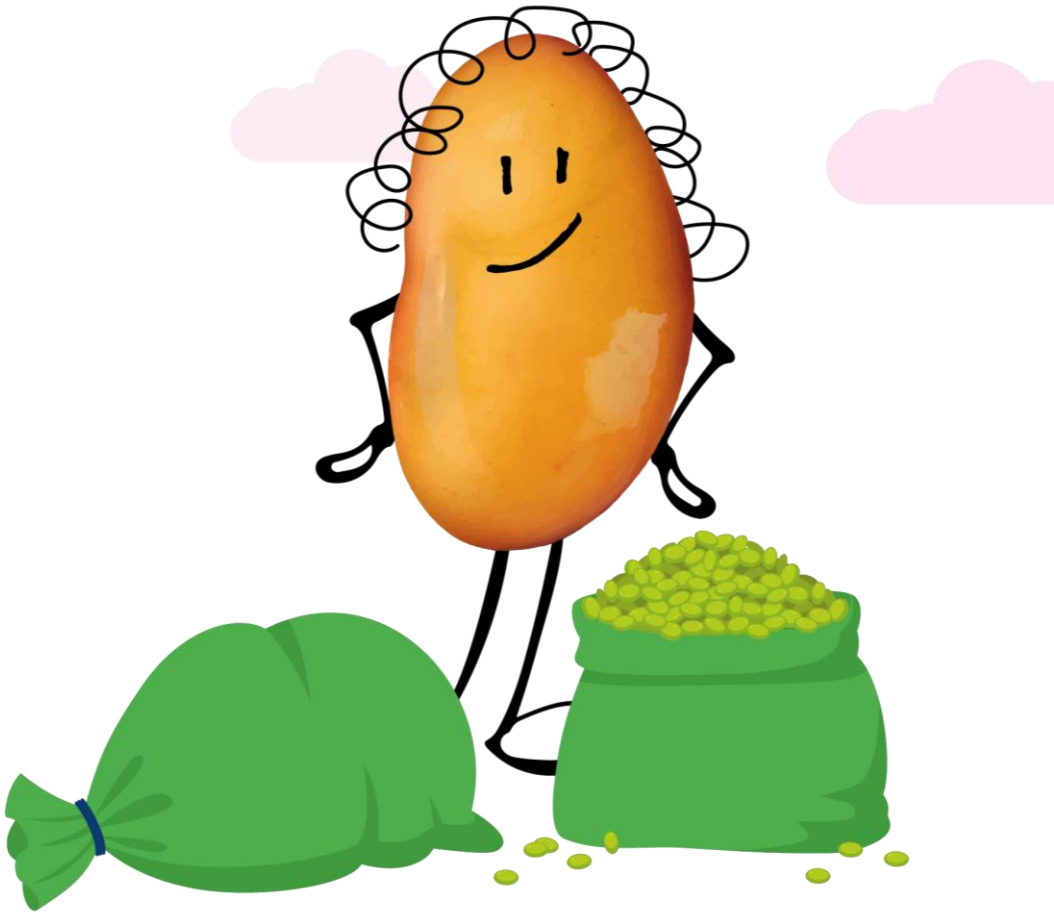
The allocation to property and infrastructure fell in value. Gains from UK commercial property were more than offset as the listed property and infrastructure holdings fell in value.

The Aon Managed Global Impact Fund returned 0.6%. Stock selection and an underweight to the technology sector detracted from performance. This was partly offset by the Fund's lack of exposure to energy, as energy prices fell slightly.

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.

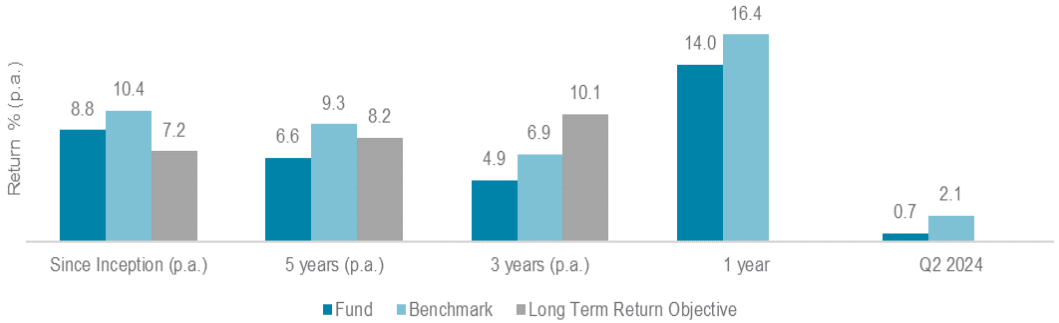
During the quarter we increased the allocation to the UBS Global Equity Climate Transition Fund, with a corresponding reduction in multi-factor equities. These changes increases exposure to funds with specific climate objectives, while also reducing the expected performance variability vs the market benchmark.



Source: Aon Investments Limited. The Plan's assets are managed on the Trustee's behalf by Aon DC Solutions. The commentary on fund performance and asset allocation changes included in this report has been provided to the Trustee by Aon DC Solutions.

Aon Managed Retirement Pathway 2034-36 Fund
Member 10 years from retirement

Scheme performance & benchmark



5 year (annualised)

+6.6%↑

Underperformed long-term return objective of CPI +3.8% p.a. by 1.6% p.a.

Since inception (annualised)

+8.8% ↑

Outperformed long-term return objective of CPI +3.9% p.a. by 1.6% p.a.

Comments

During Q1 2024, we de-risked the Fund in line with its original plan to allow for the impact of higher inflation and rising interest rates over the last few years.

Additionally, we made changes to the Fund's asset allocation to allow for the impact of higher interest rates.

Source: Aegon, Aon Investments Limited. Returns are to 30 June 2024 and are shown gross of fees. Returns are calculated using daily dealing prices and restated over all time periods to reflect the change in performance methodology implemented on 30 June 2024. Benchmarks are chain-linked using monthly underlying fund benchmarks and asset allocations and have been restated over all time periods to reflect this change. Please note the long term CPI+ objective is not shown for periods less than three years

Aon Managed Retirement Pathway 2034-36 Fund - Member 10 years from retirement (continued)

Performance comments

Over the quarter, the Fund returned 0.7% against a backdrop of positive equity and mixed bond market returns.

The Aon Managed Initial Growth Phase Fund returned 0.6%, with positive returns from climate transition equities partly offset by exposure to listed property and multi-factor equities. The Aon Managed Global Impact Fund returned 0.6%, benefitting from a lack of exposure to energy although this was partly offset by stock selection and an underweight to technology.

The Aon Managed Diversified Asset Fund returned 1.3%, with positive returns from most of the underlying holdings. The Aon Managed Diversified Multi-Strategy Bond Fund returned 1.5%, with the asset-backed securities allocation benefiting from higher interest rates. The Aon Managed Passive Corporate Bond Fund was flat.

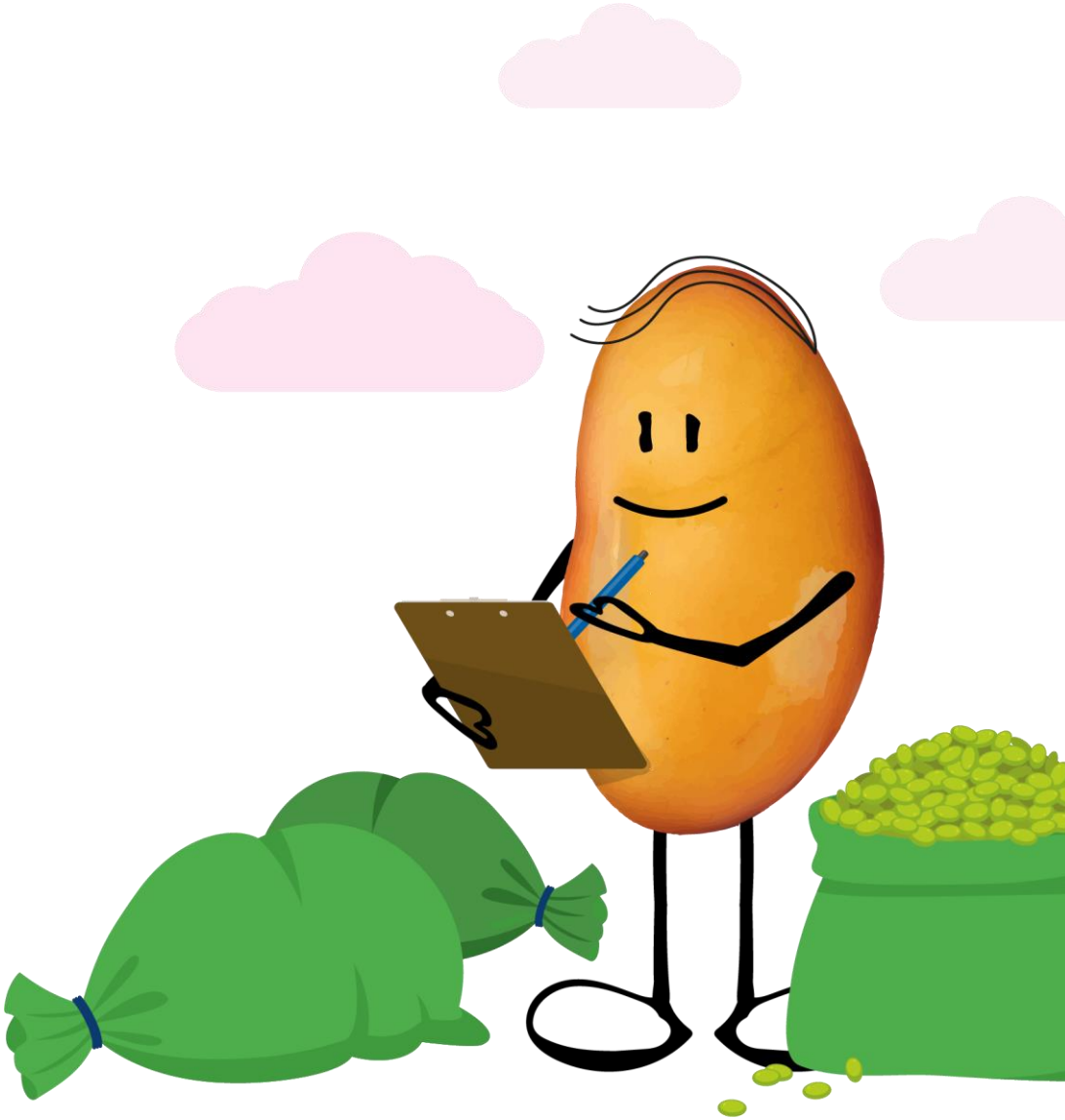
The Aon Managed Up to 5 Year Gilt Index Fund and the Aon Managed Short Term Inflation Linked Fund returned 0.6% and 0.7% respectively, as short-maturity bonds outperformed longer-maturity bonds.

New and notable

Following the latest review of the investment strategy completed in December 2023, we have made changes to the Fund's asset allocation to allow for the impact of higher interest rates.

As part of these changes, we increased the allocation to short-dated inflation-linked government bonds while reducing exposure to corporate bonds and, to a lesser extent, equities. We also changed our corporate bond portfolio to invest wholly in actively managed bond funds.

These changes were made over the first six months of 2024 and were fully in place by 30 June 2024.



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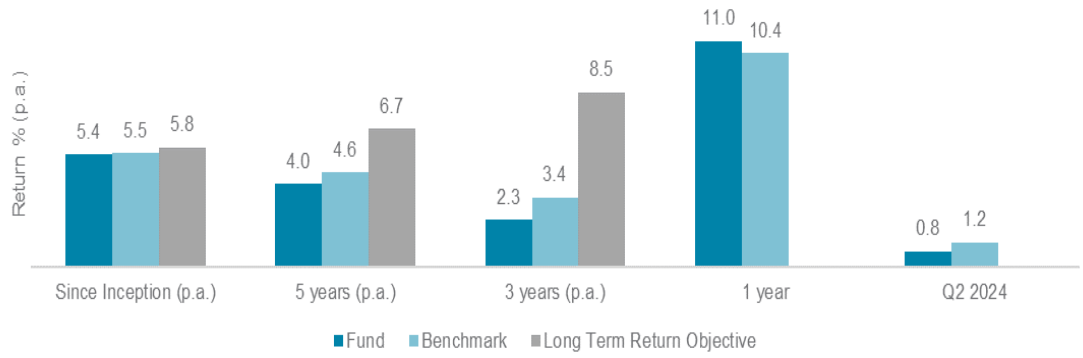
Aon Managed Retirement Pathway 2022-24 Fund Member at retirement

Scheme performance & benchmark



5 year (annualised)

+4.0% ↑

Underperformed long-term return objective of CPI +2.3% p.a. by 2.7% p.a.

Since inception (annualised)

+5.5% ↑

Underperformed long-term return objective of CPI +2.5% p.a. by 0.4% 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.

Additionally, we made changes to the Fund's asset allocation to allow for the impact of higher interest rates.

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

Performance comments

Over the quarter, the Fund returned 0.8% against a backdrop of positive equity and mixed bond market returns.

The Aon Managed Initial Growth Phase Fund returned 0.6%, with positive returns from climate transition equities partly offset by exposure to listed property and multi-factor equities. The Aon Managed Global Impact Fund returned 0.6%, benefitting from a lack of exposure to energy although this was partly offset by stock selection and an underweight to technology.

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Market – Snapshot Q2 2024

Global Equities

2.9% ↑

Global equity markets generated 3.5% in local currency terms, but the appreciation of the sterling against the Euro and Japanese Yen decreased returns.

UK Equities

3.6% ↑

UK equities generated positive returns, supported by strong corporate earnings in the Financial and Healthcare sectors.

US Equities

4.0% ↑

US equities were the second best-performing market in local and sterling terms over the quarter.

Index-Linked Gilts

-2.1% ↓

Fixed-interest gilts outperformed index-linked gilts across all maturities, with the exception of shorter maturities.

UK Corporate Bonds

-0.1% ↓

UK investment grade credit spreads rose by 0.01% p.a. to 1.09% p.a., based on iBoxx Sterling Non-Gilts data.

Property

1.7% ↑

Income return remained steady over the quarter and there were also positive capital values over the quarter.

Fixed Interest Gilts

-0.9% ↓

Short-dated gilts outperformed medium and long-dated gilts due to their lower duration and reduced sensitivity changes in interest rates.

Pound Sterling

0.1% ↑

Sterling strengthened against the US dollar ending the quarter at $1.26/£.

Source: FactSet, MSCI (Equities, Property), iBoxx (Corporate Bonds), FTSE (Gilts)