



Bean Counting:

Investment Report

Update Q1 2024



At a glance...

Market background

Global equity markets rose significantly over the first quarter of 2024. Returns were boosted by better than expected economic growth and good earnings results, while inflation continued to ease across most major economies.

Government bonds fell in value over the quarter, as yields rose. This was driven by the market's anticipation of fewer interest rate cuts over this year, as central banks reiterated their commitment to bringing inflation back to target. The BoE, US Fed and ECB maintained their interest rates at 5.25% p.a., 5.25% 5.50% p.a., and 4.0% p.a., respectively.

Investment grade corporate bonds were flat over the quarter, as falling credit spreads (the difference between government and corporate bond yields) offset the impact of higher government bonds yields.

Geopolitical tensions remained elevated, as the US and UK launched military strikes against Houthi rebels in Yemen following previous attacks on shipping in the Red Sea and raising concerns of conflict escalation in the Middle East. The US and UK accused China of cyberattacks on officials and businesses of national economic importance, while the US and Europe imposed new sanctions on Russia.

Performance: Retirement Pathway Funds

All members invested in the Aon Managed Retirement Pathway Funds experienced positive returns over Q1, benefiting from strong equity market returns. Returns for members closer to retirement were partly offset by flat returns from corporate and government bonds.

Performance of the Aon Managed Retirement Pathway Funds remains strong. Those funds further from retirement (i.e. for younger members) outperformed their long-term inflation linked return objectives over a five-year period, although those funds closer to retirement (i.e. for older members) are slightly below these objectives. This reflects strong returns from equities against an environment of higher inflation and rising interest rates.



At a glance...

Fund changes

Following Aon DC Solutions' latest review of the investment strategy, completed in December 2023, the manager is implementing changes to the strategic asset allocation the Aon Managed Retirement Pathway Funds. There is no impact on the Annual Management Charge paid by members as a result of these changes.

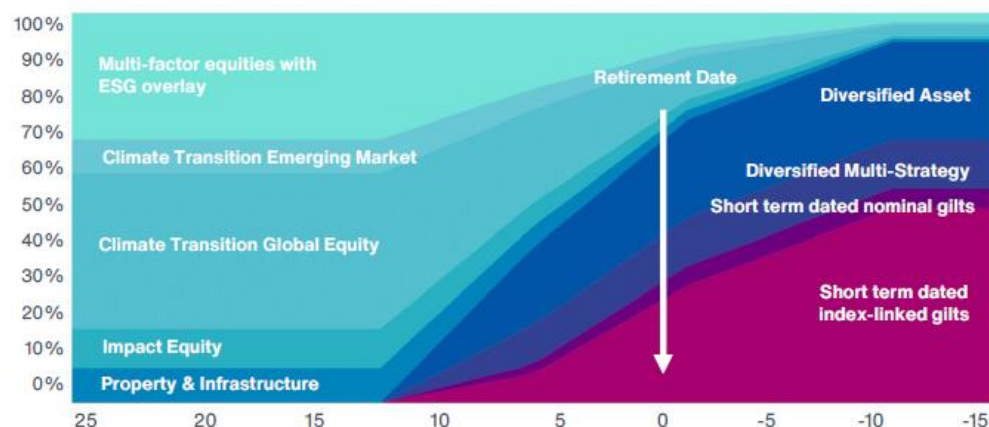
During the quarter Aon reduced the allocation to multi-factor equities within the Aon Managed Global Equity Fund, a constituent fund of the Aon Managed Retirement Pathway. There was a corresponding increase in exposure to Climate Transition equities. This change is being implemented over a 12 month period; further switches will be made throughout 2024, with the revised allocation expected to be in place by end February 2025. These changes are expected to reduce performance variability versus the benchmark while maintaining the expected return / risk profile over the long-term.

Further changes to the Aon Managed Retirement Pathway Funds have been made to allow for the impact of higher interest rates, to reduce risk for members closer to retirement whilst keeping on track to deliver the long-term return objectives. The allocation to short dated inflation linked government bonds has been increased, while reducing exposure to corporate bonds and equities.

Additionally, Aon made changes to the corporate bond portfolio to invest wholly in actively managed bond funds.

The bond portfolio changes are being made over the first six months of 2024 and will be fully complete by end June 2024.

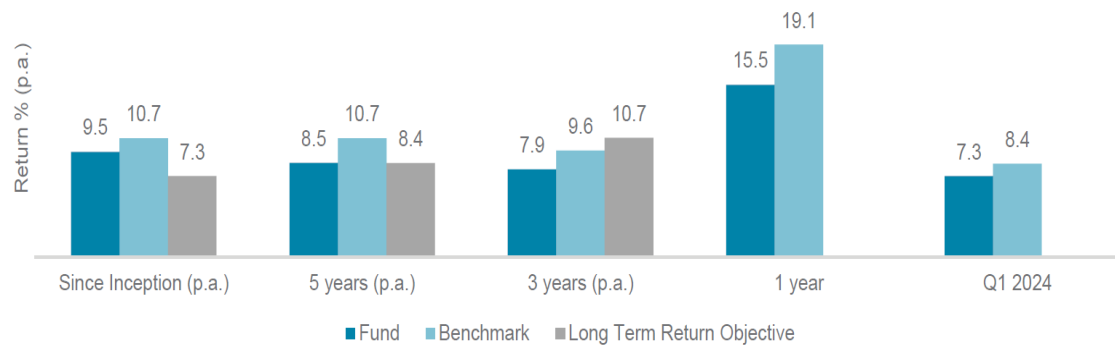
Revised Asset Allocation as at 30 June 2024



Aon Managed Retirement Pathway 2052-54 Fund

Member 30 years from retirement

Scheme performance & benchmark



5 year (annualised)

+8.5% ↑

Outperformed long-term return objective of CPI +4.0% p.a. by 0.1% p.a.

Comments

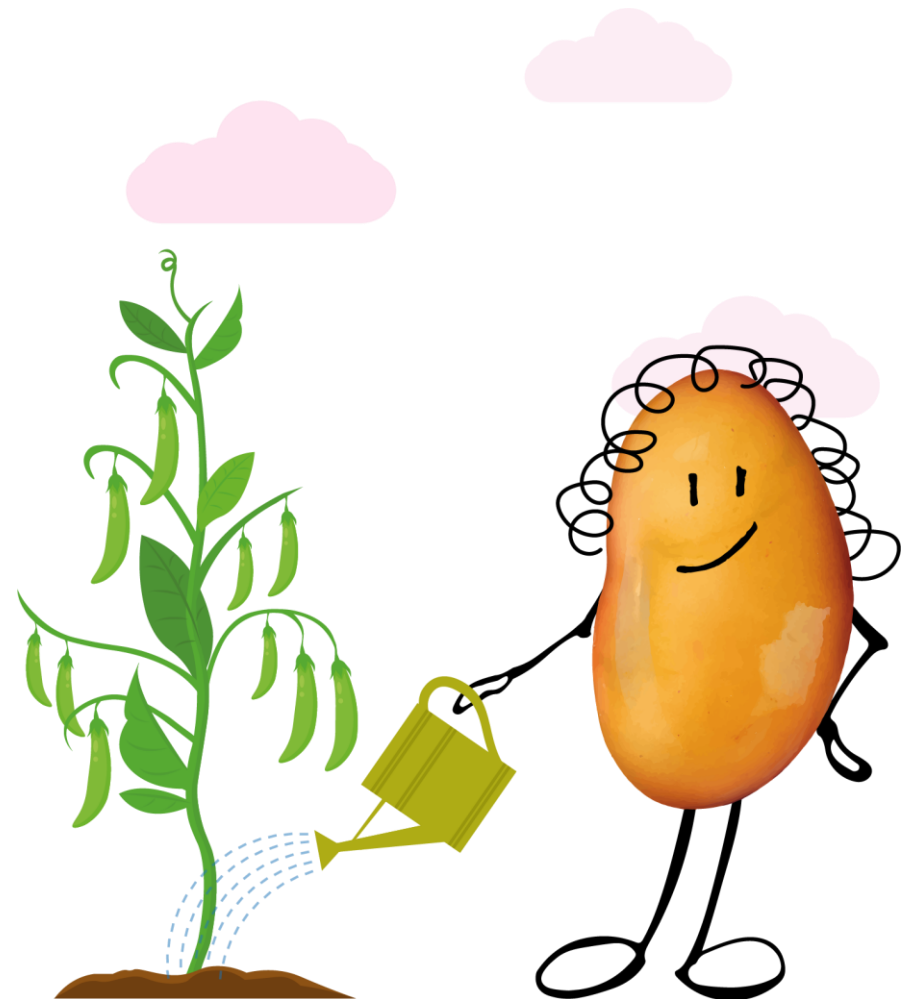
Since 1 August 2023, c89% of the Fund is invested in funds with a climate / ESG focus, with a further 10% invested in the Aon Managed Global Impact Fund.

This provides a c61% reduction in carbon footprint (scope 1 & 2) from 2019 to 2022.¹

Since inception(annualised)

+9.5% ↑

Outperformed long-term return objective of CPI +4.0% p.a. by 2.2% p.a.



Source: Aegon, Aon Investments Limited. Returns are to 31 March 2024 and are shown gross of fees. 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 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 7.3% against a backdrop of positive equity market returns.

The Aon Managed Initial Growth Phase Fund returned 7.1%. The UBS Global Equity Climate Transition Fund returned 9.2% benefiting from exposure to technology and healthcare, while the Emerging Market equity allocation returned 1.7%. The multi factor equities allocation returned 8.7%, although lagged the broader market due to its large cap technology underweight.

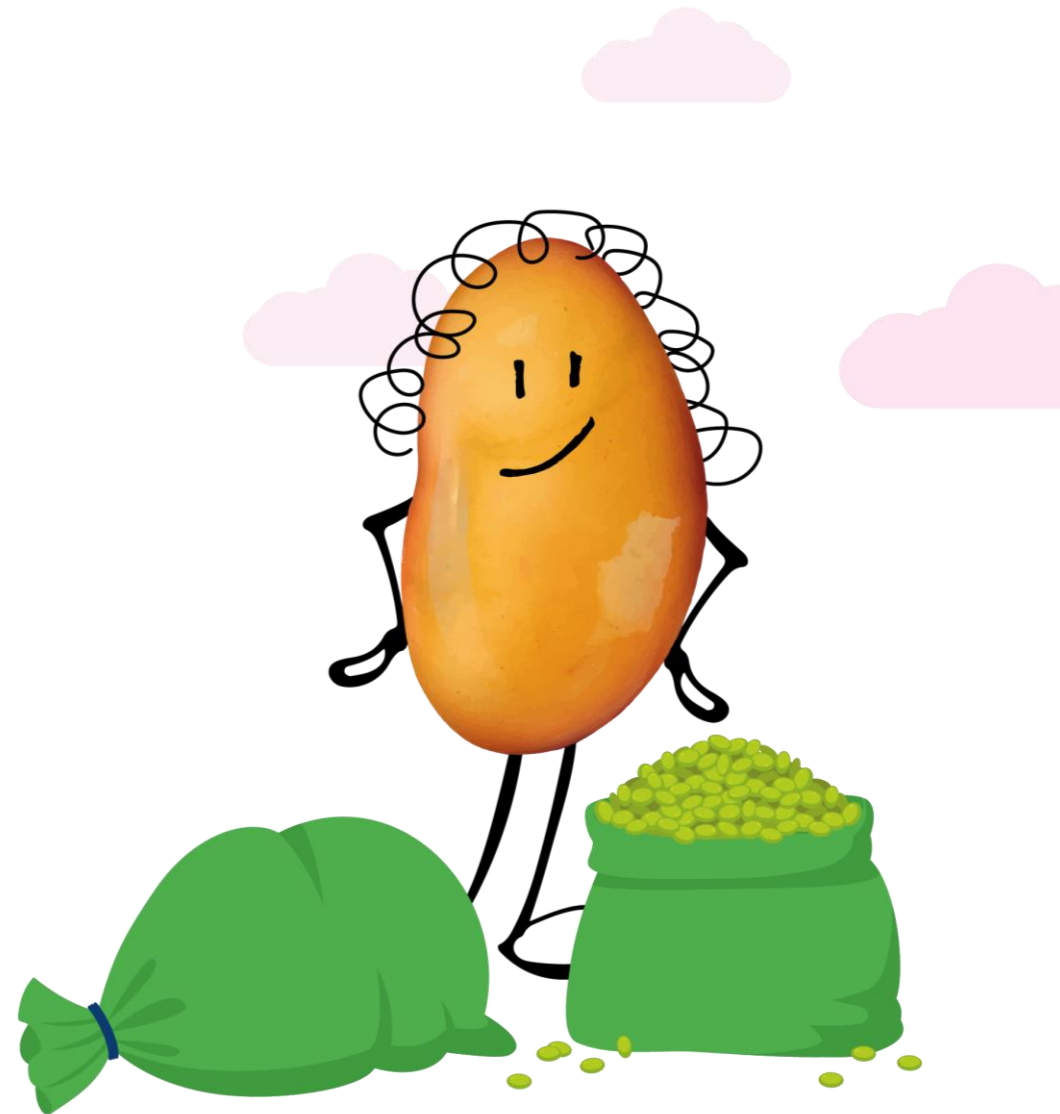
The allocation to property and infrastructure fell in value. The listed property holdings fell in value, impacted by the anticipation of fewer rate cuts this year. This was partly offset by positive returns from listed infrastructure and commercial property exposure.

The Aon Managed Global Impact Fund returned 8.6%, driven by stock selection, although performance was partly offset by a lack of exposure to energy and underweight to technology.

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.

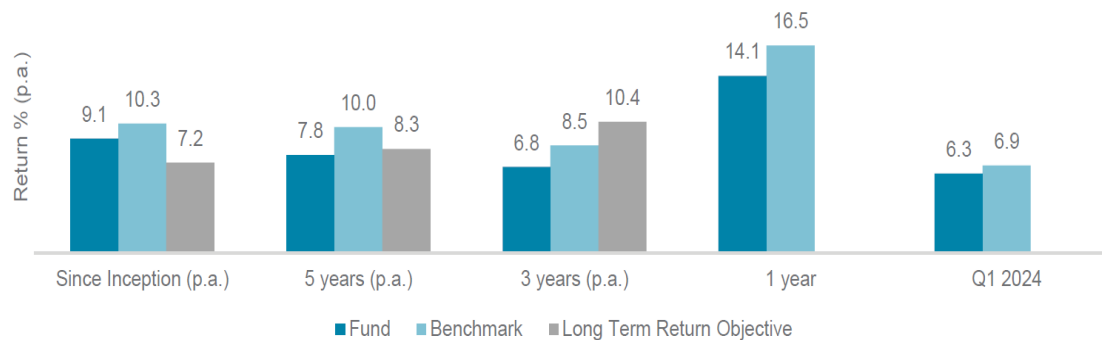
During the quarter we increased the allocation to the UBS Global Equity Climate Transition Fund, with a corresponding reduction in multi factor equities. This change increases exposure to funds with specific climate objectives, while also reducing the expected performance variability vs the market benchmark.



Aon Managed Retirement Pathway 2034-36 Fund

Member 10 years from retirement

Scheme performance & benchmark



5 year (annualised)

+7.8% ↑

Underperformed long-term return objective of CPI +3.9% p.a. by 0.5% p.a.

Comments

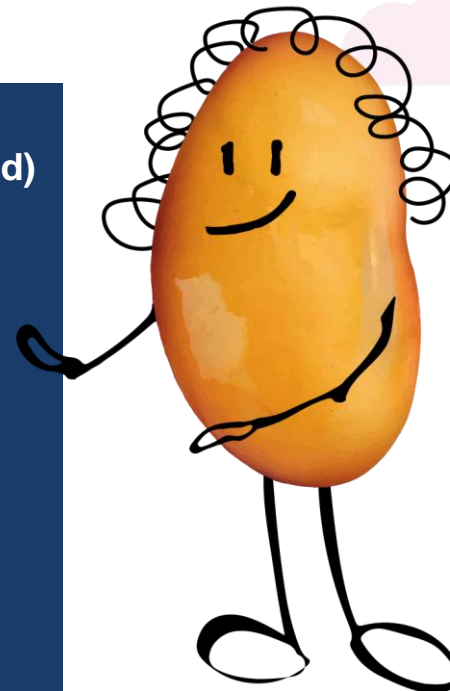
During Q1 2024, we de risked the Fund in line with its original plan to allow for the impact of higher inflation and rising interest rates over the last few years.

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

Since inception (annualised)

+9.1% ↑

Outperformed long-term return objective of CPI +3.9% p.a. by 1.9% p.a.



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

Performance comments

Over the quarter, the Fund returned 6.3% against a backdrop of positive equity and mixed bond market returns.

The Aon Managed Global Impact Fund returned 8.6%, primarily driven by stock selection. The Aon Managed Initial Growth Phase Fund returned 7.1%, with positive returns from equities partly offset by exposure to listed property.

The Aon Managed Diversified Asset Fund returned 3.8%, with gains from the majority of the underlying holdings.

The Aon Managed Diversified Multi Strategy Bond Fund returned 1.9%, with the asset backed securities allocation benefiting from higher interest rates. The Aon Managed Passive Corporate Bond Fund was flat over the quarter.

The Aon Managed Up to 5 Year Gilt Index Fund was flat over the quarter, while the Aon Managed Short Term Inflation Linked Fund returned 0.4%, as short maturity bonds outperformed longer maturity bonds.

New and notable

Following the latest review of the investment strategy completed in December 2023, we are making 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 government bonds while reducing exposure to corporate bonds and equities. We also changed our corporate bond portfolio to invest wholly in actively managed bond funds.

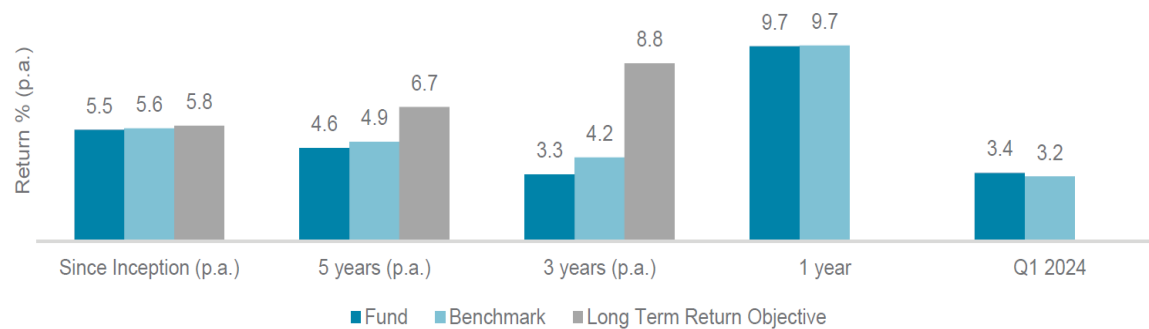
These changes are being made over the first six months of 2024 and will be fully complete by 30 June 2024.



Aon Managed Retirement Pathway 2022-24 Fund

Member at retirement

Scheme performance & benchmark



5 year (annualised)

+4.6% ↑

Underperformed long-term return objective of CPI +2.3% p.a. by 2.1% p.a.

Since inception (annualised)

+5.5% ↑

Underperformed long-term return objective of CPI +2.5% p.a. by 0.3% 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 3.4% against a backdrop of positive equity and mixed bond market returns.

The Aon Managed Global Impact Fund returned 8.6%, primarily driven by stock selection. The Aon Managed Initial Growth Phase Fund returned 7.1%, with positive returns from equities partly offset by exposure to listed property.

The Aon Managed Diversified Asset Fund returned 3.8%, with gains from the majority of the underlying holdings.

The Aon Managed Diversified Multi Strategy Bond Fund returned 1.9%, with the asset backed securities allocation benefiting from higher interest rates. The Aon Managed Passive Corporate Bond Fund was flat over the quarter.

The Aon Managed Up to 5 Year Gilt Index Fund was flat over the quarter, while the Aon Managed Short Term Inflation Linked Fund returned 0.4%, as short maturity bonds outperformed longer maturity bonds.

New and notable

Following the latest review of the investment strategy completed in December 2023, we are making 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 are being made over the first six months of 2024 and will be fully complete by 30 June 2024.



Market – Snapshot Q1 2024

Global Equities

9.3% ↑

Global equities generated 9.6% in local currency terms, but the sterling appreciation against the Euro and Yen offset the benefits of its depreciation against the US dollar.

UK Equities

4.0% ↑

UK equities generated positive returns due to their significant exposure to the financial and energy sectors.

US Equities

11.4% ↑

The notable depreciation of the sterling against the US dollar increase returns in sterling terms.

Index-Linked Gilts

-1.8% ↓

Long-dated gilts outperformed short and medium-dated gilts when yields fell strongly.

UK Corporate Bonds

0.1% ↑

UK investment grade credit spreads fell by 0.14% p.a. to 1.07% p.a., based on iBoxx Sterling Non Gilts data.

Property

0.6% ↑

Income return offset the continued fall in capital values..

Fixed Interest Gilts

-1.6% ↓

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

Pound Sterling

-0.9% ↓

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

