

Kraft*Heinz*

Bean Counting:
Investment Report
Update Q2 2023



At a glance...

Market background

Equity markets continued their rally over the second quarter, as inflation began to weaken in most economies amidst signs that the global economy was more resilient than previously anticipated. The rally in technology stocks contributed significantly to these gains, as investors' excitement over artificial intelligence grew.

While interest rates remained high in most economies, central banks either paused or slowed the pace of interest rate increases, with fears of a recession subsiding. The Bank of England, Federal Reserve, and European Central Banks all increased their policy rates between 0.25%-0.75% p.a., taking them to 5% p.a., 5.0%-5.25% p.a. and 3.5% p.a., respectively.

Government bonds fell in value over the quarter. This reflected rising government bond yields, as major central banks continued raising interest rates to bring inflation down to target. Corporate bonds also fell in value, although they outperformed government bonds as credit spreads reduced (the difference between corporate and government yields) due to better economic news.

Performance: Retirement Pathway Funds

The majority of Aon Managed Retirement Pathway Funds (AM RPFs) generated positive returns, except for members in the AM RPFs who are closer to retirement. Members closer to retirement experienced negative returns, as falls in government and corporate bonds offset positive returns from equities. The impact was mitigated to some extent by holding short-maturity bonds. Longer term, the AM RPFs have generated positive returns albeit behind their long-term inflation linked return objectives, again reflecting high inflation and interest rates combined with falling markets over 2022.

Fund changes

Within the Aon Managed Diversified (Multi) Asset Fund we;

- increased the allocation to gold, expecting it to provide better protection from both recession and inflation risks,
- reduced our allocation to cash and absolute return bonds and increased the allocation to high-quality asset-backed securities, as these assets now offer better value following increases in yield,
- increased the allocation to UK gilts after a rise in yields further improved their value.



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

Scheme performance & benchmark



5 year (annualised)

+6.6% ↑

Underperformed long-term return objective of CPI +4.0% p.a. by 1.8% p.a.

Comments

From 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 2022¹.

3 year (annualised)

+7.7% ↑

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



Source: Aegon, Aon Investments Limited. Returns are to 30 June 2023 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 1.2% gross of fees, against a backdrop of positive equity market returns.

The Aon Managed Global Impact Fund was the best-performing holding over the quarter, returning 2.2%, resulting from its low exposure to the energy sector.

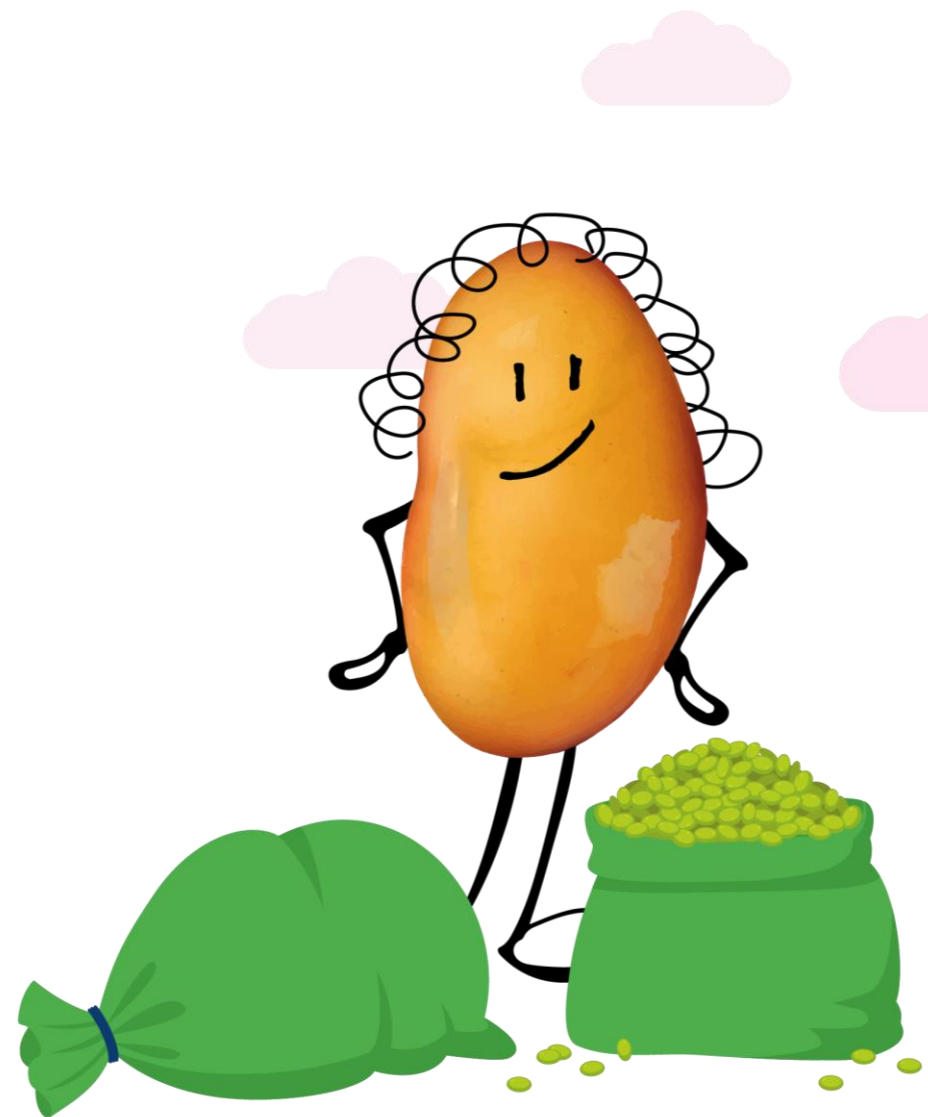
The Aon Managed Global Equity Fund returned 1.3%. The UBS Global Climate Transition fund generated a strong positive return of 3.8%, while the factor-based equities allocation lagged the wider market due to its underweight to growth-focused stocks, particularly large-cap technology stocks.

The Aon Managed Property and Infrastructure Fund fell in value. The listed property allocation fell due to declining property values and continued high interest rates. This was partly offset by the allocation to UK commercial property, which generated a positive return due to income and rental growth.

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 a new 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)

+5.0% ↑

Underperformed long-term return objective of CPI +3.6% p.a. by 3.0% p.a.

Comments

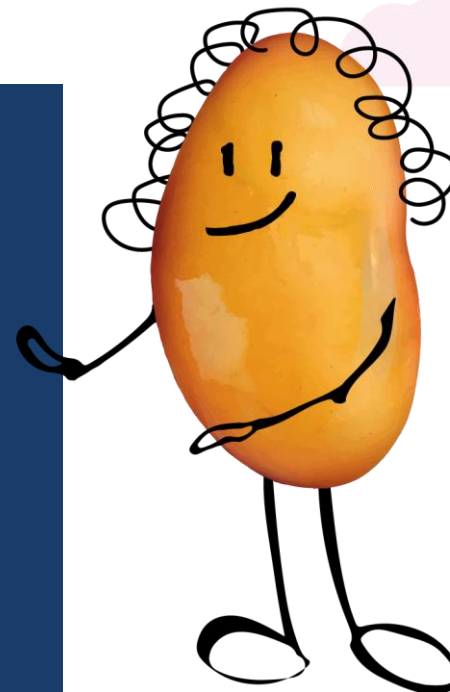
During Q2 2023, the Fund's asset allocation was unchanged, with no de-risking taking place.

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)

+4.9% ↑

Underperformed long-term return objective of CPI +3.4% p.a. by 5.1% p.a.



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

Performance comments

Over the quarter, the Fund returned 0.3% gross of fees, against a backdrop of positive equity market returns and falling bond markets.

The Aon Managed Global Impact Fund was the best-performing holding and returned 2.2%. The Aon Managed Initial Growth Phase Fund returned 1.1%, with the UBS Global Equity Climate Transition Fund generating a strong positive return of 3.8%.

The Aon Managed Diversified Asset Fund returned -0.2%, benefiting from allocations to currency-hedged factor-based equities and asset-backed securities, while the allocation to corporate and government bonds offset returns.

The Aon Managed Diversified Multi Strategy Bond Fund was flat and outperformed broad bond markets which fell as interest rates continued to rise. The Aon Managed Passive Corporate Bond Fund returned -3.2% as corporate bond values fell.

New and notable

Following the latest review, the Fund's allocation remained unchanged over the second 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 a new 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)

+3.3% ↑

Underperformed long-term return objective of CPI +2.4% p.a. by 3.5% p.a.

3 year (annualised)

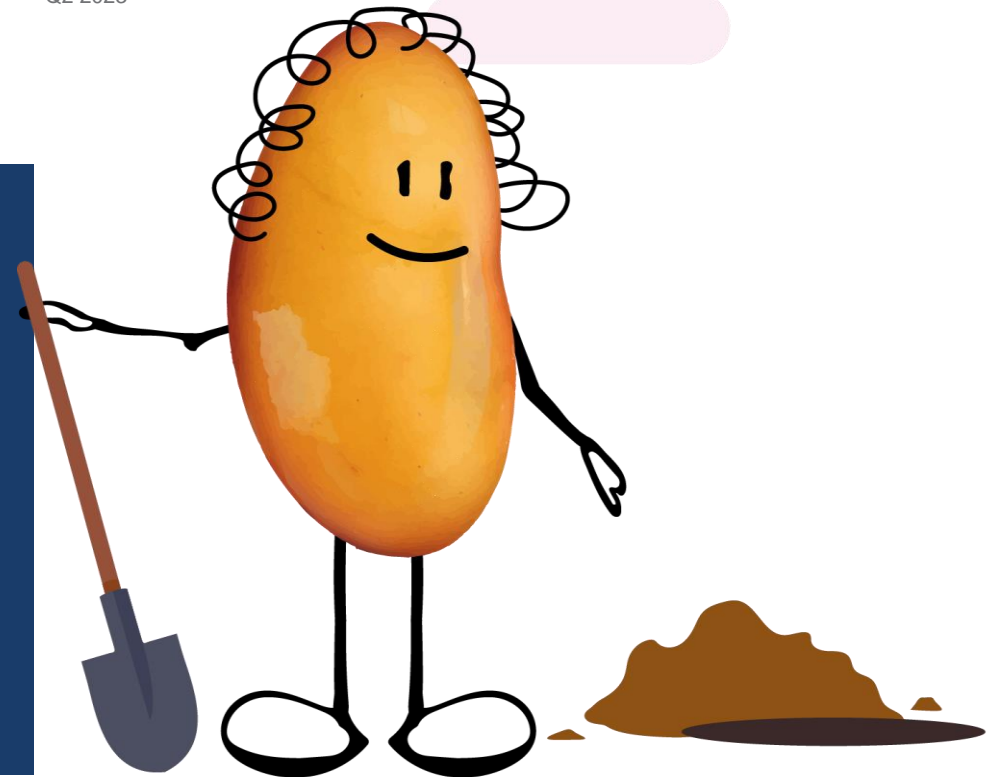
+2.1% ↑

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

Comments

During Q2 2023 we de-risked the Fund in line with our original plan as the Fund approaches its target date.

As at 30 June 2023, the Fund reached its target date and will continue to de-risk as members move into retirement.



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

Performance comments

Over the quarter, the Fund returned -0.4% gross of fees, against a backdrop of positive equity market returns and falling bond markets.

The Aon Managed Global Impact Fund was the best-performing holding and returned 2.2%. The Aon Managed Initial Growth Phase Fund returned 1.1%, with the UBS Global Equity Climate Transition Fund generating a strong positive return of 3.8%.

The Aon Managed Diversified Asset Fund returned -0.2%, benefiting from allocations to currency-hedged factor-based equities and asset-backed securities, while the allocation to corporate and government bonds offset returns.

The Aon Managed Diversified Multi Strategy Bond Fund was flat and outperformed broad bond markets which fell as interest rates continued to rise. The Aon Managed Passive Corporate Bond Fund returned -3.2% as corporate bond values fell.

The Aon Managed Short Term Inflation Linked Fund and Aon Managed Up to 5 Year UK Gilts Index Fund returned -0.5% and -2.2% respectively as government bonds fell in value.

New and notable

During Q2 2023 we de-risked the Fund in line with our original plan as the Fund approaches its target date.

As at 30 June 2023, the Fund reached its target date and will continue to de-risk as members move into retirement.

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



Global Equities

3.4% ↑

Global equity markets generated 6.7% return in local currencies but the appreciation of sterling against the US dollar pushed down returns.

UK Equities

-0.6% ↓

UK equities generated negative returns, as economically sensitive sectors underperformed.

US Equities

5.7% ↑

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

Index-Linked Gilts

-6.6% ↓

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

UK Corporate Bonds

-3.4% ↓

UK investment grade credit spreads fell by 0.11% p.a. to 1.55% p.a., based on iBoxx Sterling Non-Gilts data.

Property

1.0% ↑

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

Fixed Interest Gilts

-5.4% ↓

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

Pound Sterling

2.8% ↑

Sterling strengthened against the dollar ending the quarter at \$1.27/£.

