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**Bean Counting:**  
Investment Report  
Update Q4 2023



# At a glance...

## Market background

Global equity markets rallied strongly in November and December, which resulted in a positive return for the fourth quarter. This was mainly due to expectations of interest rate cuts in 2024 and slowing inflation, partly offset as sterling appreciated against the US dollar.

Corporate and government bonds also rallied over the quarter, as yields fell. This was due to anticipation that interest rates had reached their peak and central banks would start cutting rates as inflation slowed across major economies. This was supported by major central banks keeping interest rates unchanged over the quarter. The Bank of England kept the bank rate unchanged at 5.25% p.a., the US Federal Reserve maintained its benchmark interest rate at 5.25%-5.50% p.a., and the European Central Bank held rates at 4.0% p.a.

Geopolitical tensions remained high. In October, the Palestinian militant group Hamas launched a surprise attack on Israel from Gaza, which led to military retaliation from Israel. Following Pyongyang's launch of its first military spy satellite into orbit, North and South Korea suspended the inter-Korean Comprehensive Military Agreement, a deal aimed at reducing military tensions along the border.

## Performance: Retirement Pathway Funds

All members invested in the Aon Managed Retirement Pathway Funds experienced positive returns, benefiting from the significant rise in equities, listed infrastructure and property, and 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 objectives over a five-year period, although those funds closer to retirement are slightly below these objectives.

## Fund changes

Within the Aon Managed Diversified (Multi) Asset Fund:

- We reduced exposure to UK government bonds, following a sharp rise in bond prices as bond yields fell.
- We also increased our allocation to equities and adjusted our equity portfolio to invest more in unhedged equities, increasing our exposure to overseas currency and climate transition risks.



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

## Scheme performance & benchmark



### 5 year (annualised)

**+8.7%** ↑

Outperformed long-term return objective of CPI +4.0% p.a. by 0.4% 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>.

### Since inception(annualised)

**+8.9%** ↑

Outperformed long-term return objective of CPI +4.0% p.a. by 1.6% p.a.



Source: Aegon, Aon Investments Limited. Returns are to 31 December 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 6.8% against a backdrop of positive equity market returns.

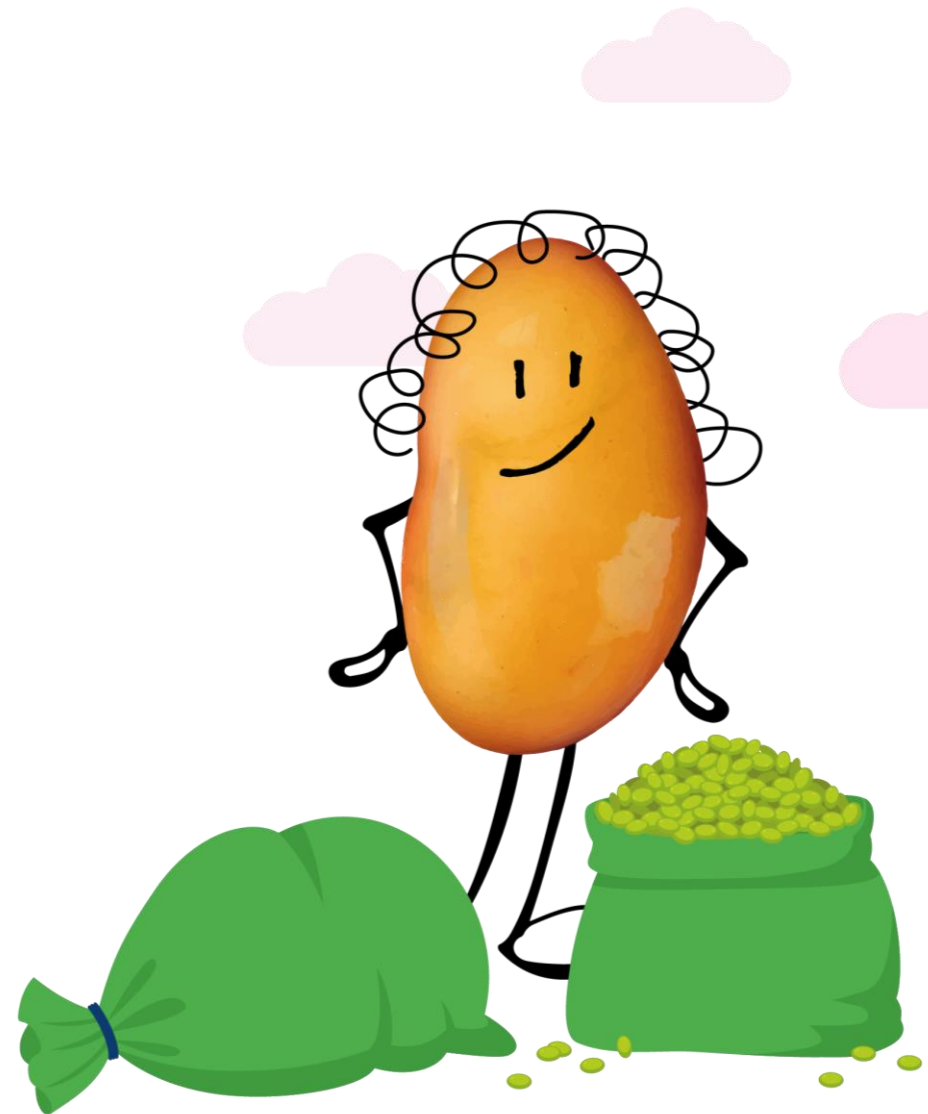
The Aon Managed Global Equity Fund returned 6.5%. The UBS Global Equity Climate Transition Fund performed well, due to exposure to the technology and industrial sectors and an underweight allocation to energy. The allocation to Emerging Market equities also rose in value. The allocation to multi-factor equities performed in line with the market and benefitted from its low-carbon approach as energy prices fell.

The listed property and infrastructure allocation increased in value, benefitting from the expectation of future interest rate cuts.

The Aon Managed Global Impact Fund returned 7.3%, benefitting from stock selection in the technology and consumer discretionary sectors, and an underweight allocation to energy.

## 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.



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

## Scheme performance & benchmark



### 5 year (annualised)

**+7.1% ↑**

Underperformed long-term return objective of CPI +3.5% p.a. by 0.7% p.a.

### Comments

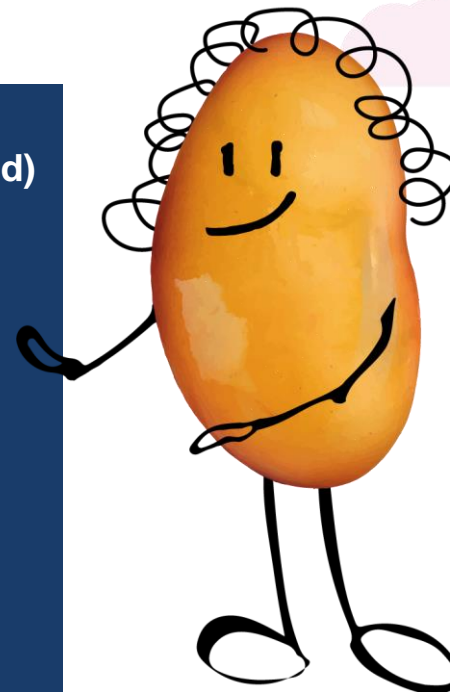
During Q4 2023, the Fund's asset allocation was unchanged, with no de-risking taking place.

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

### Since inception (annualised)

**+7.9% ↑**

Outperformed long-term return objective of CPI +3.7% p.a. by 0.9% p.a.





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

## Performance comments

Over the quarter, the Fund returned 6.5% against a backdrop of positive equity and bond market returns.

The Aon Managed Initial Growth Phase Fund returned 6.8%, with positive returns coming from equities, listed property and infrastructure. The Aon Managed Global Impact Fund returned 7.3%, driven by stock selection and an underweight allocation to energy which was beneficial as oil prices fell.

The Aon Managed Diversified Asset Fund returned 5.5%, with positive returns coming from all the underlying holdings.

The Aon Managed Diversified Multi-Strategy Bond Fund returned 2.7%, with allocations to multi-asset credit and asset-backed securities performing particularly well.

The Aon Managed Up to 5 Year Gilt Index Fund and Aon Managed Short Term Inflation Linked Fund returned 3.1% and 2.3% respectively.

## New and notable

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

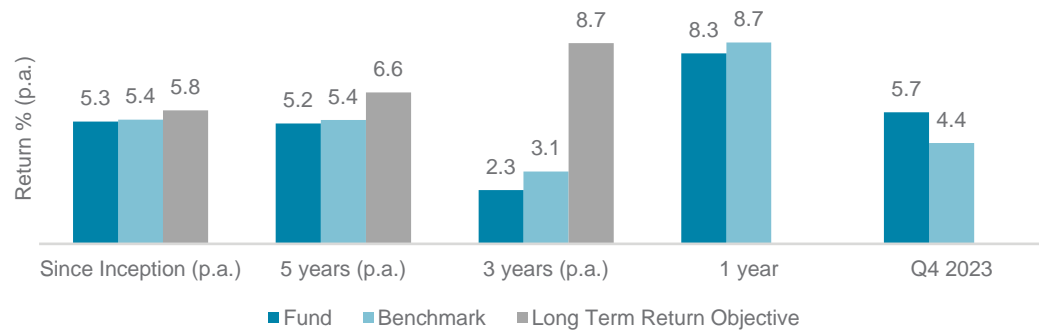
Previously, we took the opportunity to bring forward some of the planned de-risking in the first half of 2022, to further reduce risk as the Fund approaches its target date, reflecting strong market performance since the Fund's inception.

We continue to monitor this regularly going forward.



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

## Scheme performance & benchmark



### 5 year (annualised)

**+5.2% ↑**

Underperformed long-term return objective of CPI +2.3% p.a. by 1.4% p.a.

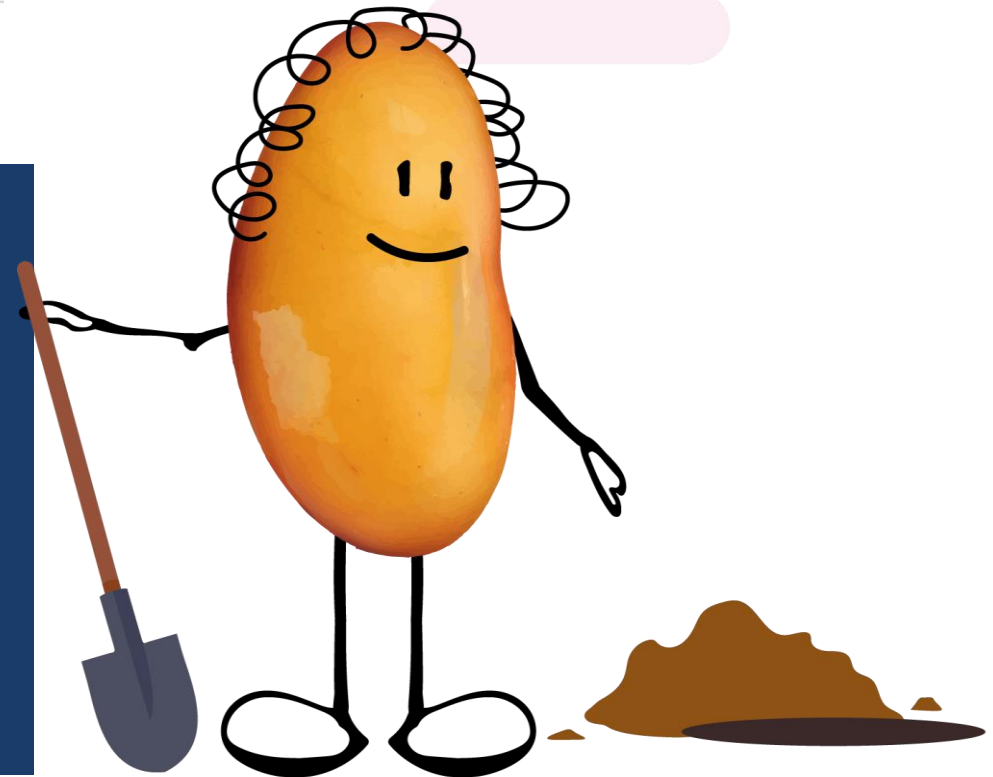
### Comments

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.

### Since inception (annualised)

**+5.3% ↑**

Underperformed long-term return objective of CPI +2.5% p.a. by 0.5% p.a.



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

## Performance comments

Over the quarter, the Fund returned 5.7% against a backdrop of positive equity and bond market returns.

The Aon Managed Initial Growth Phase Fund returned 6.8%, with positive returns coming from equities, listed property and infrastructure. The Aon Managed Global Impact Fund returned 7.3%, driven by stock selection and an underweight allocation to energy which was beneficial as oil prices fell.

The Aon Managed Diversified Asset Fund returned 5.5%, with positive returns from all underlying holdings.

The Aon Managed Diversified Multi-Strategy Bond Fund returned 2.7%, with allocations to multi-asset credit and asset-backed securities performing particularly well. The Aon Managed Passive Corporate Bond Fund returned 7.7%.

The Aon Managed Up to 5-Year Gilt Index Fund and Aon Managed Short-Term Inflation-Linked Fund returned 3.1% and 2.3% 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 fourth quarter, we de-risked in line with the original plan.

We continue to monitor this regularly going forward.





## Global Equities

**6.3%** ↑

Global equity markets generated 9.5% in local currency terms, but the appreciation of the sterling against the dollar increased returns.

## UK Equities

**2.3%** ↑

UK equities generated positive returns, despite its significant exposure to the energy sector, which underperformed over the quarter.

## US Equities

**7.2%** ↑

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

## Index-Linked Gilts

**8.7%** ↑

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

## UK Corporate Bonds

**7.3%** ↑

UK investment grade credit spreads fell by 0.10% p.a. to 1.21% p.a., based on iBoxx Sterling Non-gilts data.

## Property

**-1.2%** ↓

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

## Fixed Interest Gilts

**8.7%** ↑

Long-dated gilts outperformed short and medium-dated gilts given their lower duration when yields fell strongly.

## Pound Sterling

**4.0%** ↑

Sterling strengthened against the US dollar ending the quarter at \$1.21/£.

