Carlsberg UK Limited Pension Scheme Implementation Statement

Year ending 5 April 2024

Background and Implementation Statement

Background

The Department for Work and Pensions ('DWP') has increased regulation to improve disclosure of financially material risks. This regulation recognises Environmental, Social and Governance (ESG) factors as financially material and schemes need to consider how these factors are managed as part of their fiduciary duty. The regulatory changes require that schemes detail their policies in their Statement of Investment Principles (SIP) and demonstrate adherence to these policies in an implementation report.

Statement of Investment Principles (SIP)

The Scheme's SIP responds to the DWP regulation and covers:

- policies for managing financially material considerations including ESG factors and climate change
- policies on the stewardship of the investments

The SIP can be found online at the web address:
https://www.carlsbergmarstons.co.uk/media/55menef0/carlsberg-uk-limited-pension-scheme-statement-of-investment-principles-march-2023-final.pdf

Implementation Report

This Implementation Report is to provide evidence that the Scheme continues to follow and act on the principles outlined in the SIP. This report details:

- actions the Scheme has taken to manage financially material risks and implement the key policies in its SIP
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks
- the extent to which the Scheme has followed policies on engagement, covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies they invest
- voting behaviour covering the reporting year up to 5 April 2024 for and on behalf of the Scheme including the most significant votes cast by the Scheme or on its behalf

Summary of key actions undertaken over the Scheme reporting year

- At the beginning of the year, the Scheme transitioned from the weekly dealt LGIM ARB fund to the daily dealt fund and transitioned the B&M credit mandate held in the QIAIF to the LGIM Future World Net Zero Buy and Maintain Pooled fund.
- At the end of 2023, the Ares decided to close the Secured Income Fund due to changing market dynamics. Ares have made good progress with asset sales at the start of 2024, with proceeds distributed back to the Scheme when available. The Trustee agreed to temporarily invest these proceeds in the ARB Fund to support the collateral for the LDI allocation.
- Post year end, the Trustee also agreed to de-risk the investment strategy to protect the improvement in the funding level over the year. This resulted in reducing equity exposure and increasing the Scheme's protection against changes in long-term interest rates and inflation. The Scheme completed the transition to the new investment strategy post Scheme year end.
- The Scheme updated its Strategy Implementation Policy Document ("IPID") in March 2024 to reflect the changes in investment strategy as referenced above.

Implementation Statement

This report demonstrates that the Carlsberg UK Limited Pension Scheme has adhered to its investment principles and its policies for managing financially material considerations including ESG factors and climate change.

Signed

Position

Date

Managing risks and policy actions

Risk / Policy	Definition	Policy	Actions (Changes to the SIP during the year)
Interest rates and inflation	The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	To target interest rate and inflation risk hedge ratios close to the funding level, on a Technical Provisions basis. The Trustee monitors the hedge and will update the strategic hedge on a regular basis with advice from the investment consultant.	The target hedge ratios specified in LGIM's documents changed over the year as the funding level moved. At year end the target hedge ratios were at: 92.5% on interest rates and 95% on inflation, vs the Technical Provisions liabilities.
Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	The Trustee has a separate cashflow policy in place. In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee requires the investment manager(s) to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time of the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.	The Scheme's cashflow policy remains in place, which states upper and lower limits for the bank account balance. This ensures there remains sufficient liquidity to meet cashflow requirements. This is monitored on a monthly basis. There is no strategic weighting to cash, however LGIM utilise cash within LDI and Synthetic Equity for the efficient management of these portfolios. The Scheme was able to realise sufficient assets in a timely manner to meet all LDI capital calls over the reporting period.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	The Trustee, after seeking appropriate investment advice, has selected an appropriately diversified strategic asset allocation benchmark for the Scheme. The Trustee expects the investment managers to maintain diversified portfolios subject to their respective benchmark and guidelines.	The Scheme's Investment Policy Implementation Document ('IPID') was updated in March 2024 to reflect changes made to the asset allocation.
Manager	Experiencing losses due to factors that affect the performance of the investment managers.	Each fund in which the Scheme invests has a stated performance objective by which investment performance will be measured. These are shown in the Trustee's IPID. Within each asset class, the investment managers are expected	Over the reporting year, the Trustee reviewed investment managers' performance to ensure they were in line with the Trustee's policies.

		to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified. The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Scheme's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.	
Credit	Default on payments due as part of a financial security contract.	The investment managers are expected to maintain a portfolio of securities which ensures that the risk being accepted in each market is broadly diversified.	No actions or changes to policy.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	The Trustee expect its investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process. The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.	The Trustee reviews how their investment managers are incentivised to align their decision making with the Trustee's policies and on assessments of medium to long-term financial and non-financial performance, through the year via attendance at meetings and through engagements via their Investment Consultant. The Trustee have stated in their ESG Policy that their stewardship priority is climate change.
Currency	The potential for adverse currency movements to have an impact on the Scheme's investments.	The investment managers are expected to maintain a portfolio of securities which ensures that the risk being accepted in each market is broadly diversified.	No actions or changes to policy.

Changes to the SIP

There were no updates to the Scheme's SIP over the reporting period.

The Trustee did however review and update the Scheme's IPID in March 2024. The key updates to the IPID included:

- Updating the strategic asset allocation was updated to reflect the closure of the Ares Secured Income Fund.
- Increasing target hedge ratios specified in LGIM's LDI portfolio to 92.5% on interest rates and 95% on inflation, vs the Technical Provisions liabilities.
- Transitioning from the weekly dealt LGIM ARB fund to the daily dealt fund.
- Transitioning from the B&M credit mandate held in the QIAIF to the LGIM Future World Net Zero Buy and Maintain Pooled Fund.

Implementing the current ESG policy and approach

ESG as a financially material risk

The SIP describes the Scheme's policy with regards to ESG as a financially material risk.

The Scheme has agreed a more detailed ESG policy which describes how it monitors and engages with the investment managers regarding the ESG polices. This page details the Scheme's ESG policy.

The Trustee intends to review their own ESG policy periodically to ensure it remains fit for purpose.

Risk Management	1) ESG factors are important for risk management and can be financially material. Ensuring these risks are managed appropriately forms part of the fiduciary duty of the Trustee. 2) The Trustee believes that ESG integration leads to better risk adjusted outcomes and wants a positive ESG tilt to the investment strategy. 3) The Trustee will consider the ESG values and priority areas of the stakeholders and sponsor.
Approach / Framework	4) The Trustee wants to understand how investment managers integrate ESG considerations into its investment process and in its stewardship activities. 5) The Trustee wants to agree an objective to align its investment portfolio with the UK government's ambition to be a net zero greenhouse gas emitter by 2050, or before.
Voting & Engagement	6) ESG factors are relevant to all asset classes and, whether equity or debt investments, managers have a responsibility to engage with companies on ESG factors. 7) The Trustee wants to understand the impact of voting & engagement activity within its investment mandates. 8) The Trustee believes that engaging with managers (including on stewardship priorities) is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. 9) The Trustee's stewardship priority is climate change. As good stewards of investments, the Trustee has set clear stewardship priorities in the members' best interests. These priorities will be communicated to investment managers to influence stewardship activity. The Trustee expects companies to begin reporting climate governance, strategy, policies and performance against the TCFD's disclosure framework. If

	companies do not meet this expectation, the scheme may take a number of actions including: • Co-filing or supporting a shareholder resolution on the issue; • Voting against the company's report and accounts; • Voting against the reappointment of the Board Committee Chair responsible for climate change issues; • Voting against the Chair, reappointment of the auditor (where the auditor's report does not reference climate change), or the • reappointment of the Audit Chair.
Reporting & Monitoring	10) ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop its knowledge. 11) The Trustee will seek to monitor key ESG metrics within its investment portfolio to understand the impact of their investments. 12) The Trustee will set ESG targets considering both the Trustee's and Sponsor's views.
Collaboration	13) Investment managers should be actively engaging and collaborating with other market participants to raise ESG investment standards and facilitate best practices as well as sign up and comply with common codes such as UNPRI, TCFD and Stewardship Code. 14) The Trustee will consider at what stage it should sign up to recognised ESG frameworks (e.g., should this be in line with or ahead of regulatory requirements).

Voting and engagement

As the Scheme invests via fund managers the managers provided details on their engagement actions including a summary of the engagements by category for the 12 months to 5 April 2024.

The Scheme does not invest in physical equity funds and therefore does not have exposure to funds where managers would have shareholder voting rights.

Fund name	Engagement summary	Commentary
Partners Group Multi Asset Credit (2016)	Total Engagements: 4 Broad Based ESG: 4 Note: The above engagement data is as of 31 December 2023. This is due to the investment manager producing data bi-annually.	Partners Group actively engage with the management teams of their portfolio companies with corporate being the main focus of engagement. Example of a significant engagement include: **PetVet Care Centers** – The manager engaged with this company to obtain full repayment of its existing debt investment in PetVet Care Centres. Since Partners' investment in 2017, PetVet demonstrated significant growth, expanding to over 450 veterinary hospitals across 40 states, denoting a substantial network extension.
LGIM QIAIF	Total Engagements: 11 Environmental: 9 Governance: 2 Note: The above engagement data is as of 31 March 2024.	LGIM actively engage with the management teams of their portfolio companies at the strategy and firm level, taking a long-term perspective and have a focus on emerging governance and sustainability issues. An example of a significant engagement includes: **DNB Bank ASA** – LGIM's relationship with DNB Bank ASA was influenced by their perpetual bonds dating back to 1986, which failed to meet regulation changes post-GFC. LGIM's talks with their Treasury department revealed no consensus on the bonds' fate, causing LGIM to question alignment with market and regulator expectations. Despite their high credit rating, unmatched views on bond conditions deterred them from investment. Persistent dialogue eventually led DNB to call the bonds at par, in line with LGIM's perspective, enabling them to consider new DNB issues in the future.

LGIM Future World Net Zero Buy & Maintain Fund	Total Engagements: 127 Environmental: 135 Social: 105 Governance: 198 Other: 66 Note: The above engagement data is as of 31 March 2024.	LGIM engages with multiple parties and clients to share pioneering ESG practices and widely encourages the adoption of ESG considerations. An example of a significant engagement includes: **Unilever -** As members of the Access to Nutrition Initiative (ATNI) and ShareAction Healthy Markets Initiative, LGIM interact with industry giants such as Unilever to improve nutritional standards. Tracking a decrease in Unilever's ATNI Global Index score, LGIM co-signed an improvement letter in 2021, despite not co-filing a ShareAction shareholder proposal due to minor disagreements. Conversations with Unilever's sustainability head and chairman led to resolution withdrawal in March 2022. LGIM continue to engage with Unilever on commitments like Healthy Markets and Living Wage, promoting better consumer diets and affordable, nutritious food transparency.
LGIM Absolute Return Bond Fund	Total Engagements: 156 Environmental: 251 Social: 88 Governance: 188 Other: 126 Note: The above engagement data is as of 31 March 2024.	LGIM have a strong and integrated ESG approach for pooled funds which follow a robust framework. At a firm level, LGIM regularly monitor companies and where engagements are unsuccessful, the team will assess where problems arose and new approaches to be employed. LGIM engage with regulators, governments, and other industry participants to address long-term structural issues. An example of a significant engagement includes: **JPMorgan Chase** - LGIM has initiated an 'in depth' Climate Impact Pledge engagement with JPMorgan Chase as it plays a vital part in the global transition to net zero. In a three-year-long engagement with LGIM, the bank announced its plan to align its financings with the Paris Agreement goals and has been an early adopter of disclosing sectoral interim targets. Despite some disagreements over specifics of climate change resolutions and governance structures in their 2022 and 2023 AGMs, LGIM has supported key shareholder proposals. LGIM's ongoing engagement pushes for improved climate-related lobbying transparency, scope 3 emissions disclosures, and stricter climate-critical financial restrictions.

BlackRock Diversified Private Credit (DPC) Fund	BlackRock are unable to produce specific engagement data for the DPC fund currently. Note: The above engagement data is as of 30 November 2023.	Their investment teams conduct regular direct engagement with borrowers, however, specific numbers of ESG engagements are not presently available for each of DPC's underlying strategies. Examples of ways in which the fund looks to incorporate ESG include: - ESG risk considerations are fully embedded in fundamental research, due diligence, and investment decision processes across the Global credit platform, on which DPC is constructed. - Margin ratchets and annual ESG questionnaires are used. BlackRock have been able to provide details of few project engagements, an example of one is below: **Project Balance – HH Global Environment:** Since BlackRock's loan to print marketing provider HH Global Environment in 2020, HH Global Environment have successfully met their ESG margin ratchet requirements. Company actions include setting ambitious mid and long-term reduction targets, switching to SBTi reporting for emissions and committing to a net zero goal by 2050. With a record of surpassing annual 5% reduction intensity targets and evidenced commitment towards SDG 13: Climate Action, BlackRock confirmed this engagement as successful and integral to global low-carbon transition. They anticipate continual emission reductions in line with Project Balance's objectives.
Ares Secured Income Fund	Total Engagements: N/A Ares announced the closure of the Fund in Q3 2023 and do not track the number of engagements at a strategy or firm level. Note: The above engagement data is as of 31 March 2024.	Ares engages with multiple parties including partners and clients to share pioneering ESG practices and widely encourages the adoption of ESG considerations. An example of a significant engagement includes: In Q3 2022, Ares Alternative Credit Team engaged intensively with a large CLO Manager during due diligence, negotiating removal of a term loan to an adult entertainment company based on Ares' ESG framework. Their collaborative measures have since prevented future exposure to this industry. Ares continues to stringently align investments with ESG standards, impacting their investment decisions and managers' behaviours.

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