



# Carlsberg UK Limited Pension Scheme Implementation Statement

Year ending 6 April 2021

# Background and Implementation Statement

## Background

The Department for Work and Pensions ('DWP') is increasing regulation to improve disclosure of financially material risks. This regulatory change 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 has updated its SIP in response to the DWP regulation to cover:

- 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.carlsberguk.co.uk/media/40721/carlsberg-sip-august-2020-clean.pdf>

Changes to the SIP are detailed on the following pages.

## 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 2021 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**

- The Scheme updated its Statement of Investment Principles (“SIP”) in August 2020 in line with the DWP regulations.
- In March 2021, the Trustees selected Isio as the new Investment Advisor to the Scheme.
- Post 5 April 2021, the Scheme agreed to a new investment strategy. The Trustees agreed to disinvest from Invesco Perpetual Global Targeted Returns Pension Fund, Partners Group Multi Asset Credit (2016), BMO LDI & Synthetic Equity, LGIM Managed Property, GMO Real Return, Insight Bonds Plus.
- The new appointed managers are BlackRock Investment Management, Ares Management and Legal and General Investment Management.
- The SIP will be updated in the next reporting year to reflect the changes to the investment strategy. The next Implementation Statement for the year ending 5 April 2022 will then reflect these changes.
- The Trustees reviewed and agreed a new set of ESG beliefs which are included in this Implementation Statement under “Implementing the current ESG policy and approach”.

### **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**    **Signed on behalf of the Trustee by Mark Evans**

**Position**    **Chair of Trustee Board**

**Date**    **24 September 2021**

# Managing risks and policy actions

The policies outlined below are taken from the SIP updated in August 2020. The Trustees are due to update the SIP in 2021, following an investment strategy review. These changes will be detailed in the next Implementation Statement for the year ending 5 April 2022.

Risk / Policy	Definition	Policy	Actions (Changes to the SIP during the year)
<b>Interest rates and inflation</b>	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 hedge of 100% of interest rate and inflation risk, as a proportion of the funded liabilities as calculated 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.	No actions or changes to policy.  After the reporting year, the interest rate and inflation hedge ratios were increased to 90% of Technical Provision liabilities to help better protect the funding level of the Scheme.
<b>Liquidity</b>	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 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.	No actions or changes to policy.
<b>Market</b>	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	No actions or changes to policy.

		portfolios subject to their respective benchmark and guidelines.	
<b>Manager</b>	Experiencing losses due to factors that affect the performance of the investment managers.	<p>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 Strategic Implementation Policy. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.</p> <p>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.</p>	<p>Over the reporting year, the Trustee reviewed investment managers' performance and method of remuneration to ensure they were in line with the Trustee's policies.</p> <p>The Trustee also reviewed the duration of the Scheme's arrangements with the investment managers.</p>
<b>Credit</b>	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.
<b>Environmental, Social and Governance</b>	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Scheme's investments.	<p>The Trustee expects 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.</p> <p>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.</p>	<p>Over the reporting year, the Trustee reviewed how the 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.</p> <p>The Trustee reviewed this ESG policy post 6 April 2021. As a result of this review the ESG beliefs set out of page 9 of this document were agreed, along with a new ESG policy which will be documented in next year's Implementation Statement.</p>

**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.

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# Changes to the SIP

The Trustee updated the Scheme's SIP in August 2020. The update included:

- How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.
- How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.
- How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.
- The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.
- The duration of the Scheme's arrangements with the investment managers

# 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. This page details how the Scheme's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Scheme's managers' ESG policies and procedures. Note that the ESG beliefs were agreed post 6 April 2021. The rest of this statement details our view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The below table outlines the areas which the Scheme's investment managers are assessed on when evaluating their ESG policies and engagements. The Trustee intends to agree a new ESG policy for the Scheme in the next reporting year, and review this periodically to ensure they remain fit for purpose.

### Implementing the current ESG Policy

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Environmental, Social, Corporate Governance factors and the exercising of rights and engagement activity	<ul style="list-style-type: none"><li>• The Trustee's adviser reports on the investment managers' policies in respect of financially material considerations.</li><li>• The Trustee will take into account the approach to financially material considerations in deciding whether to retain or appoint investment managers.</li><li>• The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee detailing their voting activity. The Trustee will take corporate governance policies into account when appointing and reviewing such investment managers.</li></ul>	<ul style="list-style-type: none"><li>• The manager has not acted in accordance with their policies and frameworks.</li></ul>



## Areas of assessment and ESG beliefs

The following table was agreed at the Trustee's ESG training session in August 2021.

<b>Risk Management</b>	<ol style="list-style-type: none"> <li>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.</li> <li>2. The Trustee believes that ESG integration leads to better risk adjusted outcomes and wants a positive ESG tilt to the investment strategy.</li> <li>3. The Trustee will consider the ESG values and priority areas of the stakeholders and sponsor.</li> </ol>
<b>Approach / Framework</b>	<ol style="list-style-type: none"> <li>4. The Trustee wants to understand how investment managers integrate ESG considerations into their investment process and in their stewardship activities.</li> <li>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.</li> </ol>
<b>Voting &amp; Engagement</b>	<ol style="list-style-type: none"> <li>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.</li> <li>7. The Trustee wants to understand the impact of voting &amp; engagement activity within their investment mandates.</li> <li>8. The Trustee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance.</li> </ol>
<b>Reporting &amp; Monitoring</b>	<ol style="list-style-type: none"> <li>9. ESG factors are dynamic and continually evolving, therefore the Trustee will receive training as required to develop their knowledge.</li> <li>10. The Trustee will seek to monitor key ESG metrics within their investment portfolio to understand the impact of their investments.</li> <li>11. The Trustee will set ESG targets considering both the Trustee and Sponsor's views.</li> </ol>
<b>Collaboration</b>	<ol style="list-style-type: none"> <li>12. 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.</li> <li>13. 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).</li> </ol>

# 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 2021.

Fund name	Engagement summary	Commentary
<p>Invesco Perpetual Global Targeted Returns Pension Fund</p>	<p>Total Engagements: 17</p>	<p>Invesco maintain ongoing contact with the management teams of their portfolio companies on a range of ESG issues. The ESG team comprises of experts around the globe and works alongside the investment team. As equity holders, Invesco has the authority to drive discussions and make a positive impact in relation to ESG.</p> <p>Examples of significant engagements include:</p> <p><b>Shell</b> – Invesco engaged with the company’s CEO on various topics including decarbonising technology across its business areas. The discussions revolved around setting an internal cap on carbon emissions and investing in CCS technology and nature-based solutions. As a result, Invesco has been pleased with the company’s efforts and actions in addressing carbon emissions and has promised to continue to engage with the company.</p> <p><b>Glencore</b> – Invesco raised its concerns around the company’s position in coal assets which would exclude the company from many investment strategies. Invesco promised to continue applying pressure on the company on this matter as the company’s response did not please Invesco. This illustrates Invesco’s willingness to disinvest from positions if ESG issues are not corrected.</p> <p><b>Royal Mail</b> – Invesco initiated the engagement with the company due to longstanding concerns on living wage. During the discussion, the company confirmed that the majority of its employees are permanent with strong labour protection. The company followed up with further information on the status of its seasonal workers and its response to ShareAction which reaffirms its practices of paying above the Real Living Wage and its willingness to participate in government negotiations.</p>

Partners Group Multi Asset Credit (2016)	Total Engagements: 6 Corporate: 6	<p>Partners Group actively engage with the management teams of their portfolio companies with corporate being the main focus of engagement.</p> <p>Examples of significant engagements include:</p> <p><b>SAI Global</b> – Partners Group engaged with the company regarding the business strategy which resulted in the company now being able to deliver assurance services remotely. Following this, the company is also not expected to face liquidity issues in the near term. Partners Group also encouraged the company to sold off its Property Division thereby strengthening its balance sheet.</p> <p><b>DBI Services</b> – Partners Group took an active Board and Ownership role in March 2019 following a debt restructuring. Since then, significant operational and financial progress has been made.</p> <p><b>Côte Bistro</b> – Partners Group entered restructuring negotiations with BC Partners in July 2020. Following this, Partners Group took an ownership role in the company in August 2020.</p>
BMO LDI & Synthetic Equity	Total Engagements: 42 Business conduct: 4 Climate change: 25 Corporate governance: 2 Labour standards: 11	<p>Part of BMO’s investment process is the identification of ESG issues, and this is primarily done by engaging the counterparties in a dialogue. The level of engagement depends on the nature of the objectives. The majority of engagements is related to the Paris Agreement.</p> <p>Examples of significant engagement milestones include:</p> <p><b>Barclays PLC</b> – BMO pro-actively engaged with the company regarding the bank’s climate policy and its misalignment with the Paris Agreement. Following this, the company implemented a net zero strategy, aligning with the Paris Agreement, and promised to regularly report on progress. The bank’s labour standards were also discussed, and a letter was co-signed with BMO, urging companies to protect the mental health of their workforce during COVID-19.</p> <p><b>HSBC Holdings PLC</b> – BMO initiated this engagement with the Sustainable Finance and Risk Management teams of the bank to get an update on climate risk management. Thereafter, BMO believes that there has been a positive development in the bank’s climate risk strategy. However, BMO also believes that the bank has a competitive disadvantage in risk management as it lacks details on exiting certain industries that do not align with the Paris Agreement. As a result, the bank emphasized that their strategy is about encouraging their clients to a low carbon economy rather than exiting certain industries. BMO highlighted the need for further details after the bank’s pledge to become a net zero emissions bank.</p>

<p>LGIM Managed Property</p>	<p>LGIM currently do not provide details of their engagement activities at fund level, however, this is something they are looking to implement going forwards.</p>	<p>LGIM have a strong and integrated ESG approach for pooled funds which follows 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.</p> <p>An example of a firm-level engagement by LGIM is engaging with BP as part of the Climate Action 100+ investor coalition, to adopt net zero emission targets. BP now plans to curb oil and gas production significantly, broadly in line with global climate targets.</p>
<p>GMO Real Return</p>	<p>GMO currently do not provide details of their engagement details at fund level, however this is something they are looking to implement going forwards.</p>	<p>GMO Real Return is managed by the asset allocation team who do not directly engage with the companies on behalf of the fund. However, the investment teams managing the underlying strategies do engage and vote with the investee companies.</p> <p>GMO have not provided company names, however examples of significant engagements for underlying strategies include:</p> <p><b>Company X</b> - GMO encouraged a US graphite electrode manufacturer to communicate the superior environmental impact of their product with ESG services and the market. The company has now commissioned a study on the full life cycle carbon footprint of electric arc furnace steelmaking. The company has also committed to greater engagement with ESG services.</p> <p><b>Company Y</b> - GMO exchanged multiple emails with Company Y to gain a better understanding of the Company's plans to manage water risk (water efficiency measures, undertaking water monitoring, etc). Through the engagement process, we learned that management was taking actions to manage water stress risks in its operations by deploying various processes in its value chain. "</p>
<p>Insight Bonds Plus</p>	<p>Total Engagements: 4 ESG: 3 Social: 1</p>	<p>The total number of engagements for Insight is much smaller compared to other managers. However, Insight continually engages with the companies through active discussion and therefore produces an ESG rating for each one.</p> <p>Examples of significant engagements include:</p> <p><b>Marstons</b> – Insight identified a number of ESG risks and proceeded with monitoring the company in various ways. The discussions revolved around product quality and service, governance, and labour management. Insight encouraged the company to improve the data collection from suppliers regarding nutrition, allergens, safety and sourcing ESG factors. Furthermore, Insight believes that the company has a strong and diverse board structure. On the other hand, COVID-19 had an adverse effect on the company as</p>

<p>Janus Henderson Multi-Asset Credit</p>		<p>the majority of the employees had been furloughed, but Insight does not find this alarming.</p> <p><b>ZF Friedrichshafen AG</b> – As part of Insight’s process, engagement with the company deemed necessary to discuss their risk management strategy after an ESG rating downgrade. Based on the information provided during the engagement, Insight increased the ESG rating of the company and further agreed on future discussions.</p>
	<p>Total Engagements: 57 ESG: 26 Environmental: 10 Social: 9 Governance: 12</p>	<p>At firm-level, Janus Henderson engages with many companies and informs clients about its engagement and voting policies via various forms of communication. Due to the characteristics of bonds, it is rather difficult for Janus Henderson to engage with portfolio companies the same way as an equity investor would – bond investors have limited voting rights.</p> <p>Examples of significant engagements include:</p> <p><b>Vodafone Ziggo</b> – The Netherlands based telecommunications company issued their first green bond, where proceeds of the bond will be used in green projects. Janus Henderson bought Vodafone Ziggo green bonds on the basis of its commitment to green initiatives.</p> <p><b>Volvo</b> – Janus Henderson engaged with the company as part of their inaugural green bond launch. The company has a competitive advantage compared to other car manufacturers in regard to electrification. The company’s main focus is zero-emission vehicles and sustainability.</p> <p><b>BMW</b> – The engagement was initiated to further discuss the company’s progress on CO2 emission reduction with a specific focus on electric and electrified car models.</p>

# Voting

As the Scheme invests via fund managers and those who are eligible have provided details on their voting actions including a summary of the activity covering the reporting year up to 5 April 2021. The managers also provided examples of any significant votes.

Fund name	Voting summary	Examples of significant votes*	Commentary
GMO Real Return	<p>Votable proposals: 20,921</p> <p>Proposal voted: 20,300</p> <p>Votes 'for' management: 18,312</p> <p>Votes 'against' management: 1,594</p> <p>Abstain votes: 394</p>	<p><b>Bloomin' Brands, Inc.</b> – GMO voted for a proposal to report on Greenhouse Gas Emissions Disclosure.</p> <p><b>Total S.A.</b> – GMO voted for a proposal to instruct the company to set and publish targets for Greenhouse Gas (GHG) emissions aligned with the goal of the Paris Climate Agreement and Amend Article 19 of Bylaws accordingly.</p>	<p>Where clients invest with GMO in pooled funds then GMO do not consult with clients prior to voting on the underlying securities.</p> <p>GMO has engaged Institutional Shareholder Services Group, Inc. ("ISS") as its proxy voting agent.</p>
Invesco Perpetual Global Targeted Returns Pension	<p>Votable proposals: 5,332</p> <p>Proposal voted: 5,244</p> <p>Votes 'for' management: 4,953</p> <p>Votes 'against' management: 291</p> <p>Abstain votes: 28</p>	<p><b>Citigroup Inc.</b> – Invesco voted against a proposal relating to a report on Lobbying Payments and Policy. The vote was in line with the management recommendations. Invesco believed that the company is disclosing adequate information on the matter.</p> <p><b>Booking Holdings Inc.</b> – Invesco voted for to a proposal relating to the provision of Right to Act by Written Consent. Invesco acted in favour of this as it would make it possible for a majority shareholder to take significant corporate actions without giving prior notice to the company or other shareholders.</p>	<p>The voting decision lies with Invesco's asset managers with input and support from Invesco's Global ESG team and Proxy Operations functions. Invesco's portfolio managers review voting items based on their individual merits and retain full discretion on vote execution conducted through Invesco's proprietary proxy voting platform. Invesco's <a href="#">governance principles</a>, <a href="#">governance structure and processes</a> are designed to ensure that proxy votes are cast in accordance with clients' best interests.</p> <p>Invesco publicly discloses their proxy voting records and</p>

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voting decisions in compliance with the UK Stewardship Code and the European Shareholder Rights Directive (SRD II) on their [webpage](#).

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Note: \*GMO is unable to comment on whether or not these count as "significant" votes. Therefore examples of ESG-related votes are provided.

